

C O N T E N T S.

1. Final Report of the Royal Commission on Recent Changes in the Relative Values of the Precious Metals, 1888, with Minutes of Evidence and Appendixes. (Chairman: Louis Mallet). 1888. (C.5512). pp.157. X61;1:74.3.M9t B8
2. Report: Select Committee of the House of Lords on the Thrift and Credit Banks Bill (H.L.) 1910. (Chairman: Lord Mersey). 1910. (96). pp.67. XM,62.3.N1t E6
3. First Interim Report of the Committee on Currency and Foreign Exchanges after the War, 1918. (Chairman: Lord Cunliffe). 1918. (Cd.9182). pp.12. X:57.3.N2t E8  
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GOLD AND SILVER COMMISSION.

FINAL REPORT

OF THE

ROYAL COMMISSION

APPOINTED TO INQUIRE INTO THE

RECENT CHANGES IN THE RELATIVE VALUES  
OF THE PRECIOUS METALS;

WITH MINUTES OF EVIDENCE AND APPENDIXES.

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Presented to both Houses of Parliament by Command of Her Majesty.

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# ROYAL COMMISSIONS.

## I.

### VICTORIA R.

Victoria, by the Grace of God of the United Kingdom of Great Britain and Ireland Queen, Defender of the Faith.

To Our right trusty and well-beloved Councillor Arthur James Balfour, Our Secretary for Scotland; Our right trusty and well-beloved Councillor Joseph Chamberlain; Our trusty and well-beloved Charles William Fremantle, Esquire, Companion of Our Most Honourable Order of the Bath (commonly called the Honourable Charles William Fremantle); Our trusty and well-beloved Sir John Lubbock, Baronet; Our trusty and well-beloved Sir Thomas Henry Farrer, Baronet; Our trusty and well-beloved James Richard Bullen Smith, Esquire, Companion of Our Most Exalted Order of the Star of India; Our trusty and well-beloved David Miller Barbour, Esquire; Our trusty and well-beloved John William Birch, Esquire; Our trusty and well-beloved Lionel Louis Cohen, Esquire; Our trusty and well-beloved Leonard Henry Courtney, Esquire; and Our trusty and well-beloved William Henry Houldsworth, Esquire, greeting.

Whereas it has been represented unto Us that it is expedient that a Commission should forthwith issue to inquire into the recent changes in the relative values of the precious metals shown by the decrease in the gold price of silver.

Now know ye, that We, reposing great trust and confidence in your knowledge and ability, do by these Presents authorise and appoint you the said Arthur James Balfour; Joseph Chamberlain; Charles William Fremantle (commonly called the Honourable Charles William Fremantle); Sir John Lubbock; Sir Thomas Henry Farrer; James Richard Bullen Smith; David Miller Barbour; John William Birch; Lionel Louis Cohen; Leonard Henry Courtney; and William Henry Houldsworth to be Our Commissioners for the purposes of the said inquiry.

And We do hereby enjoin you, or any five or more of you, to investigate the causes of the said recent changes in the relative values of the precious metals, and especially to inquire whether the said changes are due—

- (1.) To the depreciation of silver; or
- (2.) To the appreciation of gold; or
- (3.) To both these causes.

If you should find the said changes to be due to the depreciation of silver, you will then inquire whether such depreciation arises from increase of supply or diminution of demand, or from both, and you will endeavour to ascertain the proportions in which these different causes have operated.

If you should find the changes to be due to the appreciation of gold, you will inquire whether the appreciation arises from the diminution of supply or from increase of demand, or from both, and you will endeavour to ascertain the proportions in which these different causes have operated.

Having regard to these different causes and their respective effects, you will next inquire what has been the bearing of the changes in the value of the precious metals on the following matters of practical business:—

#### I. India:

- (a.) Upon the remittances of the Government of India:
  - (1.) For payments on old or fixed contracts.
  - (2.) For payments on new or current contracts.
- (b.) Upon the persons in India who have to make remittances home in gold.
- (c.) Upon the producers, merchants, and taxpayers of India.
- (d.) Upon merchants and manufacturers at home who trade with India.



**II. *The United Kingdom :***

- (a.) Upon the trade of the United Kingdom with other silver-using countries.
- (b.) Upon the foreign trade of the United Kingdom generally.
- (c.) Upon the internal trade and industry of the United Kingdom.

If you should come to the conclusion that the aforesaid changes in the values of the precious metals are causing permanent or important evils or inconveniences to any of the interests above referred to, it will be your duty then to inquire whether it is possible to suggest any remedies within the power of the Legislature or the Government, by itself or in concert with other Powers, which would be effectual in removing or palliating the evils or inconveniences thus caused without injustice to other interests, and without causing other evils or inconveniences equally great.

Lastly, if you are of opinion that this is possible, you will state the precise form which such remedies should take, and the manner in which they should be applied.

And for the better effecting the purposes of this Our Commission, We do by these Presents give and grant unto you, or any five or more of you, full power to call before you such persons as you shall judge likely to afford you any information upon the subject of this Our Commission; and also to call for, have access to, and examine all such books, documents, registers, and records as may afford you the fullest information, on the subject; and to inquire of and concerning the premises by all other lawful ways and means whatsoever.

And We do further by these Presents authorise and empower you, or any five or more of you, to visit and personally inspect such places in Our United Kingdom as you may deem expedient for the more effectual carrying out of the purposes aforesaid.

And We do by these Presents will and ordain that this Our Commission shall continue in full force and virtue, and that you, Our said Commissioners, or any five or more of you, may from time to time proceed in the execution thereof, and of every matter and thing therein contained, although the same be not continued from time to time by adjournment.

And We do further ordain that you, or any five or more of you, have liberty to report your proceedings under this Our Commission from time to time, if you shall judge it expedient so to do.

And Our further will and pleasure is that you do, with as little delay as possible, report to Us, under your hands and seals, or under the hands and seals of any five or more of you, your opinion upon the several matters herein submitted for your consideration.

And for the purpose of aiding you in such matters, We hereby appoint Our trusty and well-beloved George Herbert Murray, Esquire, to be Secretary to this Our Commission.

Given at Our Court at St. James's, the Twentieth day of September one thousand eight hundred and eighty-six, in the Fiftieth year of Our Reign.

By Her Majesty's Command.

HENRY MATTHEWS.

## II.

## VICTORIA R.

Victoria, by the Grace of God of the United Kingdom of Great Britain and Ireland Queen, Defender of the Faith.

To Our right trusty and well-beloved Councillor Farrer, Baron Herschell; Our right trusty and well-beloved Councillor Joseph Chamberlain; Our right trusty and well-beloved Councillor Sir Louis Mallet, Knight, Companion of Our Most Honourable Order of the Bath; Our right trusty and well-beloved Councillor Arthur James Balfour; Our right trusty and well-beloved Councillor Henry Chaplin; Our trusty and well-beloved Charles William Fremantle, Esquire (commonly called the Honourable Charles William Fremantle), Companion of Our Most Honourable Order of the Bath; Our trusty and well-beloved Sir John Lubbock, Baronet; Our trusty and well-beloved Sir Thomas Henry Farrer, Baronet; Our trusty and well-beloved David Miller Barbour, Esquire, Companion of Our Most Exalted Order of the Star of India; Our trusty and well-beloved John William Birch, Esquire; Our trusty and well-beloved Lionel Louis Cohen, Esquire; Our trusty and well-beloved Leonard Henry Courtney, Esquire; and Our trusty and well-beloved William Henry Houldsworth, Esquire, greeting.

Whereas We did, by Warrant under Our Royal Sign Manual, bearing date the twentieth day of September one thousand eight hundred and eighty-six, authorise and appoint Our right trusty and well-beloved Councillor Arthur James Balfour, Our then Secretary for Scotland, together with the several gentlemen therein mentioned, or any five or more of them, to be Our Commissioners to inquire into the recent changes in the relative values of the precious metals shown by the decrease in the gold price of silver.

Now know ye, that We have revoked and determined, and do by these presents revoke and determine, the said Warrant, and every matter and thing therein contained.

And whereas We have deemed it expedient that a new Commission should issue for the purposes specified in such Warrant of the twentieth day of September one thousand eight hundred and eighty-six.

Further know ye, that We, reposing great trust and confidence in your ability and discretion, have appointed, and do by these Presents nominate, constitute, and appoint, you the said Farrer, Baron Herschell; Joseph Chamberlain; Sir Louis Mallet; Arthur James Balfour; Henry Chaplin; Charles William Fremantle (commonly called the Honourable Charles William Fremantle); Sir John Lubbock; Sir Thomas Henry Farrer; David Miller Barbour; John William Birch; Lionel Louis Cohen; Leonard Henry Courtney; and William Henry Houldsworth to be Our Commissioners for the purposes of the said inquiry.

And We do hereby enjoin you, or any five or more of you, to investigate the causes of the said recent changes in the relative values of the precious metals, and especially to inquire whether the said changes are due—

- (1.) To the depreciation of silver; or
- (2.) To the appreciation of gold; or
- (3.) To both these causes.

If you should find the said changes to be due to the depreciation of silver, you will then inquire whether such depreciation arises from increase of supply or diminution of demand, or from both, and you will endeavour to ascertain the proportions in which these different causes have operated.

If you should find the changes to be due to the appreciation of gold, you will inquire whether the appreciation arises from the diminution of supply or from increase of demand, or from both, and you will endeavour to ascertain the proportions in which these different causes have operated.

Having regard to these different causes and their respective effects, you will next inquire what has been the bearing of the changes in the value of the precious metals on the following matters of practical business :—

I. *India :*

- (a.) Upon the remittances of the Government of India :
  - (1.) For payments on old or fixed contracts.
  - (2.) For payments on new or current contracts.
- (b.) Upon the persons in India who have to make remittances home in gold.
- (c.) Upon the producers, merchants, and taxpayers of India.
- (d.) Upon merchants and manufacturers at home who trade with India.

II. *The United Kingdom :*

- (a.) Upon the trade of the United Kingdom with other silver-using countries.
- (b.) Upon the foreign trade of the United Kingdom generally.
- (c.) Upon the internal trade and industry of the United Kingdom.

If you should come to the conclusion that the aforesaid changes in the values of the precious metals are causing permanent or important evils or inconveniences to any of the interests above referred to, it will be your duty then to inquire whether it is possible to suggest any remedies within the power of the Legislature or the Government, by itself or in concert with other Powers, which would be effectual in removing or palliating the evils or inconveniences thus caused without injustice to other interests, and without causing other evils or inconveniences equally great.

Lastly, if you are of opinion that this is possible, you will state the precise form which such remedies should take, and the manner in which they should be applied.

And for the better effecting the purposes of this Our Commission We do by these presents give and grant unto you, or any five or more of you, full power to call before you such persons as you shall judge likely to afford you any information upon the subject of this Our Commission ; and also to call for, have access to, and examine all such books, documents, registers, and records as may afford you the fullest information on the subject ; and to inquire of and concerning the premises by all other lawful ways and means whatsoever.

And We do further by these Presents authorise and empower you, or any five or more of you, to visit and personally inspect such places in our United Kingdom as you may deem expedient for the more effectual carrying out of the purposes aforesaid.

And We do by these Presents will and ordain that this Our Commission shall continue in full force and virtue, and that you, Our said Commissioners, or any five or more of you, may, from time to time, proceed in the execution thereof, and of every matter and thing therein contained, although the same be not continued from time to time by adjournment.

And We do further ordain that you, or any five or more of you, have liberty to report your proceedings under this Our Commission from time to time, if you shall judge it expedient so to do.

And Our further will and pleasure is that you do, with as little delay as possible, report to Us, under your hands and seals, or under the hands and seals of any five or more of you, your opinion upon the several matters herein submitted for your consideration.

And for the purpose of aiding you in such matters, We hereby appoint Our trusty and well-beloved George Herbert Murray, Esquire, to be Secretary to this Our Commission.

Given at Our Court at St. James's, the Sixth day of May one thousand eight hundred and eighty-seven, in the Fiftieth year of Our Reign.

By Her Majesty's Command.

HENRY MATTHEWS.

## III.

VICTORIA R.

Victoria, by the Grace of God of the United Kingdom of Great Britain and Ireland Queen, Defender of the Faith.

To Our trusty and well-beloved Samuel Montagu, Esquire, greeting :

Whereas We did, by Warrant under Our Royal Sign Manual, bearing date the sixth day of May one thousand eight hundred and eighty-seven, appoint Our right trusty and well-beloved Councillor, Farrer, Baron Herschell, together with the several gentlemen therein mentioned, or any five or more of them, to be Our Commissioners to inquire into the recent changes in the relative values of the precious metals shown by the decrease in the gold price of silver.

And whereas one of Our Commissioners, so appointed, namely, Lionel Louis Cohen, Esquire, has since deceased.

Now know ye, that We, reposing great confidence in you, do by these Presents appoint you, the said Samuel Montagu, to be one of Our Commissioners for the purpose aforesaid, in the room of the said Lionel Louis Cohen, deceased, in addition to and together with the other Commissioners whom We have already appointed.

Given at Our Court at St. James's, the Twenty-sixth day of July one thousand eight hundred and eighty-seven, in the Fifty-first year of Our Reign.

By Her Majesty's Command.

HENRY MATTHEWS.

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NOTE.—The Right Hon. Joseph Chamberlain resigned in September 1887.

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# GOLD AND SILVER COMMISSION.

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# GOLD AND SILVER COMMISSION.

## FINAL REPORT.

### PART I.

TO THE QUEEN'S MOST EXCELLENT MAJESTY.

May it please Your Majesty, we, the undersigned Commissioners appointed to inquire into the recent changes in the relative values of the precious metals, desire humbly to submit to Your Majesty our final Report upon the several matters which we have been directed to investigate.

2. The recent changes above referred to have been of a twofold character :—

I. There have been extensive *fluctuations* in the relative values of gold and silver.

II. There has been a considerable *fall* in the gold price of silver.

Summary of  
order of  
reference.

3. We are directed to inquire whether these changes have been caused by (a) the depreciation of silver, or (b) the appreciation of gold, or (c) a combination of both these causes; and further whether such depreciation or appreciation has been caused by (a) an increased supply of, or diminished demand for, silver, (b) a diminished supply of, or increased demand for, gold, or (c) a combination of two or more of these causes.

4. We are then directed to investigate the bearing of these changes upon the general interests of the United Kingdom and India; and finally, if we are satisfied that such changes have been prejudicial to any of those interests, we are to suggest any remedies likely to remove or modify the evils which may be found to exist, without injustice to other interests, and without causing other evils equally great.

5. From the commencement of our inquiry we have been profoundly impressed with the extreme complexity of the questions submitted for our consideration.

Difficulty of  
inquiry.

The statistical information relating to the subject is very imperfect, and there is hardly any fact connected with it on which there are not considerable differences of opinion. When we proceed from facts to inferences these differences naturally become more marked.

Even if the facts themselves were admitted, there would still remain an element of doubt caused by the uncertainty as to whether we had taken into consideration all the factors necessary to enable a conclusion to be formed; and in addition to this, the influences which affect prices and the relative value of the precious metals are so subtle and various, that it is difficult, if not impossible, to assign to each of them its due weight.

6. In view therefore of the difficulties which necessarily attach to such an inquiry, we think that the best service which we can render is, in the first instance, to set out at some length the facts to which our attention has been called, with the arguments and opinions expressed on either side, leaving for a later portion of our Report the conclusions at which we have ourselves arrived.

Scheme of  
Report.

We feel that our Report will be of greater value if we are able to present in a concentrated form the nature of the problems involved and their bearing on one another, with the opposing arguments, so as to enable those interested to form their own judgment, than if we limited ourselves to a statement of the conclusions to which our own investigations have led us.

We desire to take this opportunity of expressing our acknowledgments to the several witnesses who gave evidence before us, and also to those gentlemen in foreign countries who were good enough to forward written answers to our questions. These answers, which were appended to our Second Report, will, we think, be found to contain much valuable information on the subject of our inquiry.

7. We have already indicated the nature of the changes to which we understand the terms of Your Majesty's Commission to refer, namely (a) the fluctuations which have taken place in recent years in the relative values of gold and silver, and (b) the general tendency of those fluctuations which has been in the direction of a fall in the gold price of silver.

Historical  
survey of the  
relative  
production  
and value of  
the two  
metals.

But before entering upon an examination of the changes which have occurred in recent years, it may be useful to give a brief sketch of the main facts with regard to

the relative value and production of the precious metals in periods anterior to those to which our attention is specially directed.

In the history of the production of the precious metals the two principal features are the large discoveries of silver in South America and Mexico which marked the middle of the 16th century, and the large discoveries of gold in California and Australia which marked the middle of the 19th century. Prior to 1545 the average annual production of gold appears to have been (in weight) about one-tenth of the production of silver. From the date of the discovery of the Potosi mines there was a rapid increase in the production of silver, so that by the beginning of the 17th century the relative proportions were about 98 per cent. of silver and 2 per cent. of gold. This proportion gradually altered during the 17th and earlier part of the 18th century until in 1750 it became 95.5 per cent. of silver to 4.5 per cent. of gold. For the next 50 years the production of gold fell off relatively to silver, and towards the beginning of this century, the proportion reverted to about 98 per cent. of silver to 2 per cent. of gold. The output of gold then began to increase, at first slowly, and after 1848 more rapidly, until the proportion in 1850-55 was 81.5 per cent. of silver to 18.5 per cent. of gold; but owing to the alterations in the supply since that date, the proportion is now about 95.5 per cent. silver to 4.5 per cent. gold.

Notwithstanding these variations in the production, the relative value of the two metals, as represented by the gold price of silver, has, at least during the last 200 years, been subject to much less fluctuation. At the beginning of the 16th century the relative value of silver to gold was as 11 to 1. During that century silver depreciated slowly, and during the first half of the 17th century more rapidly, until in 1670 the ratio was about 15 to 1, near which point it remained till shortly after the middle of the 18th century. About this time there was a considerable discovery of gold in Brazil, and the ratio became about  $14\frac{1}{2}$  to 1. Silver then again became slightly depreciated, and from the beginning of the present century down to 1873 the ratio did not materially vary from  $15\frac{1}{2}$  to 1.

It will thus be seen that from the middle of the 17th century the relative value of the two metals did not vary much more than 3 per cent. in either direction until the recent divergence began to manifest itself in 1873.

Extent of  
the recent  
changes in  
their relative  
value.

8. From a table presented by one of our earliest witnesses, Mr. Pixley, it will be observed that from 1833 to 1872 the annual average price of bar silver on the London market was never lower than  $59\frac{3}{8}d.$  per oz. nor higher than  $62\frac{1}{8}d.$ , showing a range of  $2\frac{7}{8}d.$  during the 40 years in question.

Mr. Pixley has been good enough to furnish us with a continuation of this table down to the end of 1887, from which it appears that in the years from 1873 to 1887 both inclusive, the highest annual average was  $59\frac{1}{4}d.$  (in the first year of the period) and the lowest  $44\frac{5}{8}d.$  (in the last year), showing a variation of  $14\frac{3}{8}d.$

The highest actual quotation between 1833 and 1873 was  $62\frac{3}{4}d.$ , in July 1859; and the lowest  $58\frac{3}{4}d.$  in February and March 1833, showing a variation of  $4d.$

In the later period the highest actual quotation was  $59\frac{1}{2}d.$  in February 1873, and the lowest  $42d.$  in July and August 1886, showing a variation of  $17\frac{1}{2}d.$

During the current year the price has undergone a further decline, dating from about the end of February. On the 19th of May the quotation was  $41\frac{1}{2}d.$ , the lowest yet recorded, and for some weeks afterwards it scarcely rose above  $42d.$

As will be seen from the dates given the general tendency of the silver market since 1873 has been downwards, there being only three years (1877, 1880, and 1884) in which the average price for the whole year was higher than in the year preceding.

#### CAUSES OF THE FLUCTUATIONS AND THE FALL IN THE GOLD PRICE OF SILVER.

9. On these facts the question arises whether the wider range of the fluctuations in the later period, and the fall in the gold price of silver are due:

- (I.) to some change which has affected silver, or
- (II.) to some change which has affected gold, or
- (III.) to changes which have operated upon both metals.

We will proceed to state the arguments brought forward under each of these heads.

#### I. CAUSES AFFECTING SILVER.

10. The first point to be noticed is the increased supply of silver from the mines, especially those of the United States.

11. But before entering upon the statistics relating to the production and consumption of the precious metals, we desire to express our acknowledgments to the recent work

Causes  
affecting  
silver.



of Dr. Soetbeer,\* which contains so much valuable information on this and many other points connected with monetary questions.

Throughout our Report we shall frequently refer on all statistical questions to the figures compiled by Dr. Soetbeer. He explains very fully in all cases the sources of his information and the methods which he has adopted in compiling it; and we have not met with any other figures which appear more deserving of general acceptance.

We have been so much impressed by the value of the work in question, that we have appended a translation of it to this report.

We are also indebted for some useful information to the independent inquiries of Sir Hector Hay and Mr. Pixley on certain branches of the subject.

12. The following table reproduces Dr. Soetbeer's estimate of the

PRODUCTION OF SILVER since 1851.

(a) Increased supply from mines;

Period.	Total Production (Annual Average.)		Production in the United States. (Annual Average).	
	Weight in Kilogrammes.	Value in £ Sterling.	Weight in Kilogrammes.	Value in £ Sterling.
1851-55	886,115	8,019,350	8,300	75,100
1856-60	904,990	8,285,450	8,200	56,400
1861-65	1,101,150	9,965,400	174,000	1,574,700
1866-70	1,339,085	11,984,800	301,000	2,693,950
1871-75	1,969,425	17,282,450	564,800	4,942,000
1876-80	2,450,252	19,103,100	980,672	7,647,000
1881-85	2,861,709	21,438,000	1,137,478	8,521,450

The weight of silver annually raised from the mines may therefore be said to be at the present time considerably more than double what it was 20 years ago; and it has increased nearly 50 per cent. during the last two quinquennial periods.

It should be added that in the above table the value of the silver produced has been estimated according to the actual gold price in the several periods specified.

13. In addition to the supply from the mines, the amount of silver placed on the market was further increased by that portion of the demonetised German silver which was offered for sale. The quantity so sold is stated at 3,552,000 kilogrammes, and the amount realised was upwards of 28,000,000*l.*

and (b) from the sale of demonetised German silver.

The following figures show the proceeds of the sales in each year from 1873 to 1879, and the average price realised.

Year.	Proceeds of Sales.	Average Price in Pence per oz. Standard.
	£	d.
1873	464,834	59 <sup>1</sup> / <sub>8</sub>
1874	8,056,788	58 <sup>1</sup> / <sub>2</sub>
1875	910,422	57 <sup>1</sup> / <sub>2</sub>
1876	4,696,824	52 <sup>3</sup> / <sub>8</sub>
1877	11,521,211	54 <sup>1</sup> / <sub>8</sub>
1878	6,310,192	52 <sup>1</sup> / <sub>8</sub>
1879	1,396,720	50
Total	28,356,986	

The effect of this supply must, however, have been of a very temporary character; and little if any silver has been sold by the German Government since 1879.

14. Coupled with this increased supply there has also been, it is alleged, a decrease in the demand, arising from the following causes:

(c) Decreased demand.

(a.) The cessation of the free coinage of silver in Germany, the Latin Union, and Holland; and

(b.) A diminution in the quantity required for transmission to India.

15. The statistics of the coinage throw very little light upon the real extent of the demand for new metal. But we append in a footnote such statistics as we have been

(i.) Coinage.

\* Materialien zur Erläuterung und Beurteilung der wirtschaftlichen Edelmetallverhältnisse und der Währungsfrage. Berlin, 1886.

able to procure of the total coinage of silver in the principal countries of the world since 1851.\*

It will be observed that previous to the period 1881-85 the coinage greatly exceeded the total production. This is due to the large quantity of silver which is re-coined, and which therefore appears more than once in the returns. At many of the Continental mints no record is kept of the origin of the metal coined, and it is therefore impossible to say what proportion of the amount issued by the mints was newly raised from the mines, and what proportion was old silver re-coined.

(ii.) Demand for India.

16. The diminution in the Indian demand for silver is ascribed primarily to the increase in the amount of the bills drawn by the Secretary of State for India upon the Government of India.

Q. 3030-4, 9131.

The following table gives the net import of silver into India (in tens of rupees), and the amounts received by the Home Government for bills drawn upon India (in sterling) for each year since 1851.

Official Year.	Net Imports of Silver into India.	Amounts received by the Home Government for Bills drawn on India.	Official Year.	Net Imports of Silver into India.	Amounts received by the Home Government for Bills drawn on India.
	Rx.	£		Rx.	£
1850-51	2,117,225	3,236,458	1870-71	941,924	8,443,509
1851-52	2,865,357	2,777,528	1871-72	6,520,316	10,310,339
1852-53	4,605,024	3,317,122	1872-73	715,144	13,939,095
1853-54	2,305,744	3,850,565	1873-74	2,495,824	13,285,678
1854-55	29,600	3,669,678	1874-75	4,642,202	10,841,615
Average	2,384,590	3,370,269	Average	3,063,082	11,364,047
1855-56	8,194,375	1,484,040	1875-76	1,555,355	12,380,613
1856-57	11,073,247	2,819,711	1876-77	7,198,872	12,695,799
1857-58	12,218,948	628,499	1877-78	14,676,335	10,134,455
1858-59	7,728,342	25,901	1878-79	3,970,694	13,948,565
1859-60	11,147,563	4,694	1879-80	7,869,742	15,261,810
Average	10,072,495	992,569	Average	7,054,199	12,846,048
1860-61	5,328,009	797	1880-81	8,892,574	15,239,677
1861-62	9,086,456	1,193,729	1881-82	5,379,050	18,412,429
1862-63	12,550,157	6,641,576	1882-83	7,480,227	15,120,521
1863-64	12,796,719	8,979,521	1883-84	6,405,151	17,599,905
1864-65	10,078,798	6,789,473	1884-85	7,245,631	13,758,909
Average	9,968,028	4,721,019	Average	6,080,527	16,026,268
1865-66	18,668,673	6,998,899	1885-86	11,606,629	10,292,602
1866-67	6,963,103	5,613,746	1886-87	7,155,738	12,136,279
1867-68	5,593,962	4,137,285	1887-88	9,218,751	15,358,577
1868-69	8,601,022	3,705,741			
1869-70	7,318,144	6,980,122			
Average	9,428,981	5,487,159			

These figures, it is contended, show that, whilst the sterling remittances of the Indian Government have increased, the exports of silver to India have decreased; and this for the following reasons:

* Period.	Nominal Value of Silver Coinage.		
	Europe and the United States.	British India.	Total.
	£	£	£
1851-55	22,879,000	23,409,000	46,288,000
1856-60	46,114,500	46,533,000	92,647,500
1861-65	35,371,500	44,581,000	79,952,500
1866-70	58,609,000	36,987,000	95,596,000
1871-75	69,385,400	14,806,000	84,191,400
1876-80	86,423,000	42,766,000	129,189,000
1881-85	56,015,600	24,343,000	80,358,600

- (i.) The drawings of the Home Government represent an export from India for a great portion of which no commercial equivalent is received, and which consequently diminishes the purchasing power of the country. Effect of Council bills.
- (ii.) The bills drawn upon India represent a competing remittance with silver; and as, owing to the necessities of the case, the bills must be put on the market at whatever price they may fetch, and cannot be held over, except within certain limits, to await the opportunity of a favourable market, the demand for silver as a means of remittance is proportionately reduced, and its price depressed.
- (iii.) The bills are not placed on the market in the ordinary course of trade arising from the balance of international indebtedness upon the commercial transactions of the two countries. They may be offered largely for sale at a time when they are not required for purposes of remittance. This has the effect of lowering their price, and experience shows that the price at which they are sold influences the market for silver. If their price falls the silver market is immediately depressed.

17. The Indian demand for silver has been further affected by other circumstances independent of the mere increase in the drawings of the Home Government. Other causes affecting Indian demand.

For some years before the commencement of the fall in the value of silver there had been special reasons inducing a flow of that metal to India. This was due mainly to the following causes, (i) the American cotton famine, which stimulated the export of cotton from India, (ii) the construction of the Indian railways and other public works, which necessitated the expenditure of a large amount of capital in that country, and (iii) the mutiny, which compelled the Government to reduce its drawings on India for the time and even to make remittances in silver. It may also be added that the gold discoveries set free for export to the East large quantities of silver formerly required for purposes of currency in Europe. All these causes tended to promote the export of silver to India and to diminish the amount of remittances to England. The full effect therefore, even of the comparatively small demands of the Home Government, was scarcely felt until about the year 1871-72; and since that date, as will be seen from the table above given, they have largely increased.

It has also been said that owing to the uncertain value of silver in recent years, and the tendency of gold to rise in value, the latter metal has taken the place of silver to some extent in India for purposes of hoarding. The figures showing the increased demands for gold are given in § 37.

18. An argument of a somewhat different character ascribes the fall and fluctuations in the gold price of silver to the removal of an influence which formerly tended to keep its value steady in relation to gold irrespective of the considerations to which we have already alluded. Destruction of bimetallic ratio in Latin Union.

From 1865 to 1873 the mints of the States forming the Latin Union, namely France, Belgium, Italy, Switzerland, and Greece, were ready to convert into coin all silver brought to them, such coin being legal tender to any amount in the several States of the Union, at a fixed ratio with gold.

In France a similar law had been in force since 1803; and the principle of a legal ratio had been adopted in that country at a much earlier date.

The existence of this bimetallic law was, it is contended, sufficient to maintain a permanent relation between gold and silver, quite independent of the actual quantity of either metal which was brought for coinage, or raised from the mines. Any person possessing silver, and knowing that by taking it to the mints of those countries he could obtain in return for it coin, which would be there available for the discharge of debts in the proportion of 15½ of silver to 1 of gold, would not part with it for any purpose except at a price approximating to that ratio. Q. 3467; 4326.

In other words the ratio established by law between the two metals practically controlled and regulated the market ratio.

19. In support of this view, it is pointed out that while the relative value of the production of the two metals was subject to considerable changes in the first 70 years of this century, the extreme variation in their market value scarcely exceeded 3 per cent. in either direction, as shown in § 7; while, if the average value over a series of years is taken, the variation is hardly perceptible. Stability of relative value in former periods.

These facts are brought out more clearly in the following table compiled from Dr. Soetbeer's estimates of the production of the two metals :—

RELATIVE VALUE OF PRODUCTION AND MARKET PRICE OF GOLD AND SILVER IN THE UNDER-MENTIONED PERIODS.

Period.	Value of Production (Annual Average).		Proportion of Silver to Gold.	Average Price of Bar Silver.	Ratio of Market Value.	
	Silver.	Gold.			Silver.	Gold.
1801-10	£8,002,600	£2,480,000	3·226 to 1	60½	15·61 to 1	
1811-20	4,866,900	1,596,600	3·048 „ 1	60½	15·51 „ 1	
1821-30	4,075,900	1,988,100	2·055 „ 1	59½	15·80 „ 1	
1831-40	5,278,600	2,830,300	1·865 „ 1	59½	15·75 „ 1	
1841-50	6,867,600	7,638,800	·899 „ 1	59½	15·53 „ 1	
1851-55	8,019,300	27,815,400	·288 „ 1	61½	15·41 „ 1	
1856-60	8,235,400	28,144,900	·292 „ 1	61½	15·30 „ 1	
1861-65	9,965,400	25,816,300	·386 „ 1	61½	15·40 „ 1	
1866-70	11,984,800	27,206,900	·440 „ 1	60½	15·55 „ 1	

Suspension of coinage by the Latin Union;

20. In 1873, however, large quantities of the silver which had been withdrawn and sold in consequence of the monetary changes in Germany were brought to the French and Belgian mints. Upwards of 6,000,000*l.* worth of silver in France, and upwards of 4,000,000*l.* in Belgium were coined in that year; and serious apprehensions were excited in both countries. The result was the Convention of January 1874. between the several States of the Latin Union, which limited the coinage of 5-franc pieces in the Union during the year 1874 to the following amounts, namely: France, 60,000,000 francs; Italy, 40,000,000; Belgium, 12,000,000; and Switzerland, 8,000,000; and this limitation was continued (subject to a slight alteration in the amount) until the coinage of full legal tender silver was finally suspended in all the States of the Union in November 1878.\*

and consequent effect upon the value of silver.

21. The effect of these measures was, it is said, not only to depress the price of silver by limiting the actual use of that metal, but to destroy the controlling power formerly exercised by the legal ratio; and as this change, in itself one of great importance, occurred simultaneously with a great development of silver mining in America, and as the supply of silver relatively to gold has increased, while the demand for it relatively to gold has diminished, the natural result of a fall in the gold price of silver has ensued.

The full effect of the change is shown in the following continuation of the table given above.

Period.	Value of Production (Annual Average).		Proportion of Silver to Gold.	Average Price of Bar Silver.	Ratio of Market Value.	
	Silver.	Gold.			Silver.	Gold.
1871-75	£17,232,450	£24,260,300	·710 to 1	59½	15·97 to 1	
1876-80	19,103,100	24,052,200	·794 „ 1	52½	17·81 „ 1	
1881-85	21,438,000	20,804,900	1·030 „ 1	60½	18·68 „ 1	

It will be observed that in the latter table an increase of 45 per cent. in the ratio of production was met by a diminution of 16 per cent. in the market value; whilst in the former table the diminution of 86 per cent. in the ratio of production between 1801-10 and 1866-70 coincides with a rise in the market value which is scarcely perceptible.

Unimportance of amount of annual supply.  
Q. 3880.

22. It is contended, on the other hand, that the fall in the gold price of silver has not been due to any causes solely or chiefly affecting silver.

It is pointed out that the increased supply from the mines is not sufficient to account for a fall of 25 or 30 per cent. in the value of silver as compared with gold, when it is remembered that the annual supply of the precious metals is not consumed within a given limit of time, as is the case with most other commodities, but is added to a stock representing many times the annual production.

\* The nominal value of the subsidiary silver coins issued from the mints of the Latin Union in the years 1878 to 1887 inclusive was 3,610,328*l.*; but the greater part of this value represents re-coinage. The millimal fineness of these coins is 835, that of the 5-franc pieces being 900, and the former are legal tender only for sums not exceeding 50 francs.

The value of the silver produced in the world from the end of the 15th century to the present time is estimated by Dr. Soetbeer at upwards of 1,951,000,000*l*. If an allowance be made of one-fourth for loss and wear, the annual supply, even at the present rate, represents an addition of less than 1½ per cent. to the existing stock.

23. In reply to this it is urged that, owing to the legislative changes described in § 20, the market has, since 1873, become much more sensitive to variations of supply, and that in such circumstances an addition of only 1 per cent. to the existing stock might produce a result altogether out of proportion to its intrinsic importance.

Greater sensitiveness of the market.

24. With regard to the alleged decrease in the demand, it is urged that the actual employment of silver even for purposes of coinage has not diminished since the period when the fall in its value commenced.

Demand has not decreased.

Any falling off in the quantity required for use in Europe has been more than counterbalanced by the comparatively new demand created in the United States.

The Bland Act.

Down to the year 1873 there had been free coinage in that country for both gold and silver, and both metals were legal tender at a ratio of 16 to 1. But during the Civil War, and for some years afterwards, the amount of silver coined was very small; the average value of the coinage in the 10 years ending June 30, 1874, did not amount to 2,000,000 dollars a year.

By the United States Coinage Act of 1873 the free coinage of silver was suspended, and gold was made the sole legal tender for sums exceeding 5 dollars.

The Law of February 23, 1878 (generally known as the Bland Act, or more correctly the Allison Act), directed the monthly coinage of not less than 2,000,000 or more than 4,000,000 dollars, and made them full legal tender for any amount, in the absence of special stipulation to the contrary.

The total coinage under that Act in the 10 years during which it has been in operation is upwards of 300,000,000 dollars, the whole of which practically represents a new demand.

It also appears from a table put in by Mr. Giffen that China, which formerly exported silver, has since 1875 become an importing country.

China. Q. 597.

As regards the alleged falling off in the Indian demand, it is pointed out that the diminution in recent years only becomes apparent if they are contrasted with the years 1856-70, a period which is admitted to have been one of abnormal demand in India.

India.

In the 20 years preceding 1856, the average net imports of silver into India scarcely exceeded Rx. 1,750,000 a year; in the 15 years 1871-85 the average was Rx. 5,400,000; while in the years 1885-86 to 1887-88 the average rose to Rx. 9,327,000.

The figures given in § 16 show that in the period between 1856 and 1870 the net imports of silver into India slightly exceeded the total quantity produced in the world, and the Indian demand must consequently have been largely met from the currencies of the bimetallic countries.

The failure of the supply from this source since 1873 is, it is said, sufficient to balance a material increase of production from the mines.

25. The allegations concerning the influence of the Indian Council bills upon the silver market are also disputed. It is said that while the Indian Council bills may have an immediate and temporary effect in preventing silver from going to India and in thus checking the demand for it, yet that in the end it is the value of silver which must determine that of the bills; that if there is a sufficient demand silver will flow to India, whatever the amount of the bills; that they can only check the export of silver to India in the same way and to the same extent in and to which they check the export of other goods; and that as the imports of goods into India have largely increased notwithstanding the increased drawings of the Government, the imports of silver cannot have been seriously checked by those drawings.

As to alleged effect of Council bills. Q. 10,176.

26. While therefore it is not denied by those who take the above view with regard to the demand that, but for the monetary changes in the Latin Union and Germany, the demand for silver might have been considerably greater than at present, it is contended that on the whole there is no evidence of any such diminution in the use of silver as would be sufficient to account for a fall of from 25 to 30 per cent. in its value when compared with the years preceding those changes.

No sufficient explanation of so great a fall as has taken place.

27. It is also argued—

(a.) That if the fall in the value of silver was due to some cause affecting that metal alone, and that consequently it had fallen not only against gold but against commodities, there would have been an increased export of silver to countries where it is legal

Silver has not flowed to silver-using countries.

tender to an unlimited extent, resulting in a general rise of prices and wages in those countries.

There is, however, no evidence of any such phenomenon having taken place. On the contrary, as will be seen from the figures given in §§ 15 and 16, neither the imports of silver into India, nor the coinage of that metal, have shown any tendency to increase in such a manner as would support this theory.

Demand for standard metal must be unlimited.

(b.) That the demand for a metal which is used as the standard is necessarily unlimited as to quantity in the country in which it is so used; that the strength of that demand is shown by the quantity of commodities for which a given weight of the metal will exchange; and that as silver will at the present time buy as much produce in India as before, it follows that the allegation of a falling off in the Indian demand for silver cannot be maintained.

No great increase in supply.

Q. 8748-52.

(c.) That silver has not flowed to India in greater quantity because there is no great surplus of silver in the market which could be thus disposed of.

The additional amount of silver thrown on the market outside the United States in recent years is shown by the following figures, compiled from Dr. Soetbeer's tables :—

Years.	Average Annual Production of Silver outside United States.	Net Export from United States (Annual Average).	Total (Annual Average).
	Kilos.	Kilos.	Kilos.
1866-70 - - -	1,038,085	329,888	1,367,973
1871-75 - - -	1,404,625	519,000	1,923,625
1876-80 - - -	1,469,580	221,444	1,691,024
1881-85 - - -	1,724,231	248,111	1,972,342
1876-85 - - -	1,596,906	234,777	1,831,683
1871-85 - - -	1,582,812	329,518	1,862,330

Thus it appears that the average yearly amount of new silver to be absorbed between 1876 and 1885 was actually less than the average of 1871-75, and that the excess amount to be absorbed in the period 1871 to 1885, compared with the average of 1866-70, was only 494,357 kilos. yearly, or less than four and a half millions sterling at the old ratio of 1 to 15½.

(d.) That whatever influence the increased drawings of the Indian Council and the absence of any special demands such as those referred to in § 17 may have exercised on the value of silver, an additional demand must have been created in recent years by the development of the country, the increase of population, the construction of railways, the opening of the Suez Canal, the lowering of the cost of transport, and other similar causes.

Flow of silver to the East counteracted by export of goods.

Q. 9128.

28. According to another view, the flow of silver to India which might have been expected from the fall in its value in Europe has been counteracted or prevented by the heavy fall in the gold prices of many commodities exported from Europe to India, which has resulted in increased exports of those commodities, in lieu of silver; the prices of such commodities having fallen more than the price of silver.

The following table in illustration of this argument shows (i) the total imports into India of merchandise and\* treasure, (ii) the imports of merchandise only (excluding gold), and (iii) the net imports of silver :—

Period.	Total Imports, including the Precious Metals. (Annual Average.)	Imports of Merchandise only. (Annual Average.)	Imports of Silver. (Annual Average.)
	Rx.	Rx.	Rx.
1866-70	47,067,000	32,652,200	9,429,200
1871-75	39,078,700	33,698,700	3,065,500
1876-80	47,020,900	39,352,600	7,054,200
1881-85	63,855,100	53,061,600	6,080,600

\* The net imports of treasure have been taken.

29. In reply to this argument, it is urged that no diminution in the cost of producing commodities exported from Europe to India could affect the demand for silver in India, so long as that metal would buy as much produce in India as before.

30. The fact of the steadiness in the relation between the two metals during the maintenance of the bimetallic system in France is explained as being accidental and not necessarily attributable to the working of that system. At the time when the large discoveries of gold might have been expected to destroy the efficacy of the legal ratio, France happened to be in possession of a considerable stock of silver, for which, owing to exceptional circumstances, she was able to find a market elsewhere; and when, in its turn, the production of silver increased, there happened to be a large stock of gold in the country.

Effect of the bimetallic ratio only accidental.  
Q. 6336.

The causes of the steadiness in the relative value of gold and silver, and the extent to which this steadiness was due to the maintenance of the bimetallic standard in France, will be fully dealt with in another portion of our Report; and we need not, therefore, at this point state the argument at greater length.

## II. CAUSES AFFECTING GOLD.

31. The view which ascribes the divergence in the value of the two metals to causes primarily affecting silver alone was that which received the largest amount of support when the fall in its value as compared with gold was first brought to the notice of the public.

Arguments in favour of appreciation of gold.

As soon, however, as the corrections suggested by experience came to be applied to theory, it was suggested that this explanation of the phenomenon was scarcely consistent with some of the known facts of the situation; and it was then urged, even by those who did not admit the effects ascribed to the dissolution of the bimetallic ratio in the Latin Union, or accept the theory of a fall in the value of silver owing to an excessive supply of that metal as compared with the demand, that an explanation should be sought in the hypothesis that the change which had taken place was due to circumstances which had affected gold and not silver.

Q. 10,303-5.

32. This theory, that gold is scarcer both absolutely and relatively to the work which it has to perform, and that consequently it bears a higher relative value to both commodities and silver (so far as the latter is to be considered as a commodity) than it did formerly, is supported by its advocates both on *a priori* grounds and by appeal to facts.

33. It is pointed out in the first place that there has been a diminished supply from the mines.

Diminished supply of that metal.

The following table gives Dr. Soetbeer's estimate of the total production of gold since 1851.

Period.	Total Production. (Annual Average.)	
	Weight in Kilogrammes.	Value in £ Sterling.
1851-55	199,388	27,815,400
1856-60	201,750	28,144,900
1861-65	185,057	25,816,300
1866-70	195,026	27,206,900
1871-75	173,904	24,260,300
1876-80	172,414	24,052,200
1881-85	149,137	20,904,900

These figures, though they do not, of course, pretend to absolute accuracy, are in substantial agreement with those compiled by other authorities. In the evidence given by Sir Hector Hay and Mr. Pixley will be found the results of independent inquiries instituted by them. The actual quantities given by the different authorities for each period do not always coincide; but the result, so far as it establishes a proportionate diminution of supply, is practically the same in all cases.

34. Concurrently with this diminished supply it is contended that there has been an increased demand for gold on the part of the United States, Germany, Italy, Holland, and the three Scandinavian kingdoms.

Coupled with increased demand.

Extent and effect of the United States demand.

35. Of the above-mentioned countries the demand for the United States is undoubtedly the most important.

Its extent will be best understood from the following figures showing—

The CONSUMPTION OF GOLD in the UNITED STATES.

Period.	Annual Average Value of			Actual Consumption.
	Home Production.	Net Exports.	Net Imports.	
	£	£	£	£
1866-70	10,602,000	8,069,000	—	2,533,000
1871-75	8,300,200	8,594,000	—	— 293,800
1876-80	8,916,840	—	2,468,000	11,384,840
1881-85	6,708,080	—	4,425,000	11,133,080

From these figures it appears that during the 10 years 1866-75, the United States absorbed a total value of 11,196,000*l.*, and during the 10 years 1876-85 a total value of 112,589,600*l.*

The United States first began to draw gold from Europe in 1878, and since that date the imports of gold have exceeded the exports in every year except one.

This demand was originally created by the anticipated resumption of specie payments on the 1st January 1879; and its maintenance is due both to the very rapid growth of the trade and population of the country in recent years, and to the increasing demand for gold for industrial and currency purposes. A large amount is also accumulating in the Treasury, owing to the growing surplus of revenue over expenditure, and the protective system of the country, which, it is said, leads to an export of gold thither in lieu of commodities.

This large accumulation of gold in the Treasury is a distinctive feature in the United States. In other countries the store of gold constitutes the reserve of the principal banks, and is the foundation on which the commerce of those countries is based. In the United States, however, the amount held by the Treasury, except so far as it is represented by notes or gold certificates, is practically hoarded and withdrawn from commercial use altogether.

36. The extent of this demand for the United States in its effect upon the supply available for other countries is further illustrated by the following table showing the—

AVAILABLE SUPPLY of GOLD in COUNTRIES outside the UNITED STATES.

Period.	Annual Average Value of the			
	Production outside the United States.	Net Exports from the United States.	Net Imports to the United States.	Total Supply.
	£	£	£	£
1866-70	16,604,900	8,069,000	—	24,673,900
1871-75	15,960,100	8,594,000	—	24,554,100
1876-80	15,135,360	—	2,468,000	12,667,360
1881-85	14,096,820	—	4,425,000	9,671,820

Indian demand.

37. There was also a slight increase between 1880 and 1885 in the Indian demand for gold, which however has not been maintained since that date.

NET IMPORTS of GOLD into INDIA.

Period.	Annual Average Value.
	R <i>x.</i>
1866-70	4,985,528
1871-75	2,330,080
1876-80	614,988
1881-85	4,712,899
1886-88	2,643,057



If then we deduct from the total production the quantities absorbed by India and the United States we arrive at the following results:—

Period.	Total Production of the World.	Absorbed by India and the United States.	Surplus.
1866-75	£ 257,336,000	£ 47,771,000	£ 209,565,000
1876-85	224,285,000 *	139,229,000	85,056,000

38. The demand in Germany has arisen from the substitution of a gold for a silver standard simultaneously with the withdrawal of a considerable quantity of notes of small denominations, necessitating a corresponding addition to the metallic circulation. European demand.

The gold coinage was first authorised by a law of December 1871, but the single gold standard was not actually introduced until July 1873 by a law which also prohibited the issue by the Imperial Bank of Germany of notes of a less value than 100 marks. Germany.

The amount of gold actually coined by Germany since 1871 is upwards of 98,000,000*l.*; and of this sum about 80,000,000*l.* is estimated to represent the new demand. Q. 498.

The greater portion of this coinage (upwards of 50,000,000*l.*) was executed in the years 1872 and 1873; and the bulk of the metal required was drawn either directly or indirectly from France. The following figures will afford some indication of the movement of gold towards Germany during those years. Q. 1354.

VALUE OF GOLD BULLION and SPECIE exported to Germany in the under-mentioned Years.

Year.	Great Britain.	France.	Belgium.	Total.
	£	£	£	£
1871	8,488,000	4,585,000	1,776,000	14,849,000
1872	8,152,000	353,000	414,000	8,919,000
1873	7,263,000	7,040,000	*41,323,000	55,626,000
Total	23,903,000	11,978,000	43,513,000	79,394,000

These figures are taken from the trade returns of the three countries above mentioned, the German returns themselves being obviously incomplete; but it must be observed that in nearly all countries the returns of the import and export of the precious metals are more liable to error than is the case with other commodities; and we do not therefore think that these figures afford much indication of the real facts of the case.

39. Another demand was created by the action of Italy in 1881-83, with the view of resuming specie payments. For this purpose a loan was raised of 16,000,000*l.*, about 12,000,000*l.* of which was drawn from countries outside Italy; but the gold coinage actually executed in Italy since 1881 does not appear to have exceeded 6,500,000*l.* Italy. Q. 522.

In the Netherlands a bimetallic system of currency had been in force until 1847, when a single silver standard was introduced. The coinage of silver was, however, temporarily suspended for short periods between 1872 and 1875. By a law of 6th June 1875, the adoption of a gold coinage was authorised, and the coinage of silver was permanently suspended; the silver, however, still remaining legal tender at its nominal value. The gold coinage since 1875 has amounted to about 6,000,000*l.* Holland.

By a convention originally made in 1872, but not finally ratified by all the parties until 1876, the three Scandinavian kingdoms, Norway, Sweden, and Denmark, adopted a common system of currency based on the single gold standard; that previously in use having been silver. The amount of gold coined in the three countries since 1872 is about 7,000,000*l.* Scandinavian kingdoms.

\* Entered in the returns as "in transit from France."

40. It should, however, be remembered that all the demands for the several European countries above mentioned must not be considered as having had a cumulative effect, some of the gold required having been only temporarily withdrawn from other countries to which it afterwards returned in the ordinary course of trade.

In this respect the European countries stand on a different footing from the United States and India, which have on balance absorbed gold almost continuously throughout the last 10 years.

Demand for industrial purposes.

41. In addition to the above demands, which relate chiefly to the use of gold for monetary purposes, allegations are made that the amount required for industrial purposes has increased; but very little evidence has been adduced in support of this view. Any statistics on the subject must necessarily be of a very uncertain character, as there are no means of ascertaining either the quantities actually used for such purposes or the extent to which the supply is obtained from new metal or from metal previously used, or the extent to which metal previously used is melted down and re-coined.

Dr. Soetbeer's estimate of the total quantity of gold annually required for industrial purposes at the present time (after deducting the old material used) is 90,000 kilogrammes, equivalent to about 12,250,000*l.* But this estimate is considered by some authorities as too high.

Q. 371, 380.

Sir Hector Hay's estimate of the amount used in this country is about 2,300,000*l.*, of which about 1,750,000*l.* is from new material.

The only country in which any systematic attempt appears to have been made to estimate the quantity used over a series of years is the United States.

Q. 388, 607, 608.

The inquiries of the Director of the Mint in that country have resulted in the following figures :—

VALUE of GOLD used for Industrial Purposes in the United States in the under-mentioned Years.

Year.	Total Consumption.	From Coin and other old Material.	From Bars.
	£	£	£
1880	1,799,000	651,000	1,148,000
1881	2,101,000	816,000	1,285,000
1883	3,012,000	1,525,000	1,487,000
1885	2,323,000	1,024,000	1,299,000

None of the estimates, however, throw much light on the increase or decrease of the use of gold in recent years.

Increased tendency to hoard or accumulate.

42. It is further stated that the unsettled relation which has subsisted between the two metals since 1873, as well as other causes, have produced a tendency on the part of both individuals and Governments to accumulate or hoard gold rather than silver.

Q. 1461, 1462.

The facts on this point which relate to India have been noticed above in § 37. It is also known that the German Government has a sum of about 6,000,000*l.* in gold stored in the fortress of Spandau, which is practically withdrawn from the stock available for commercial or industrial purposes.\*

Q. 7709.

Further evidence pointing in the same direction may be found in Dr. Soetbeer's estimate of the value of the gold contained in the national treasuries and the principal banks of the world, which gives the following figures :—

	£
1877	144,500,000
1878	142,500,000
1879	175,000,000
1880	189,500,000
1881	195,000,000
1882	203,500,000
1883	230,000,000
1884	234,000,000
1885	252,000,000

\* It should, however, be noted that "Reichskassenscheine" or Treasury Notes have been issued by the Government to the extent of about 140,000,000 marks, which may be considered as to some extent secured by the reserve above mentioned.

It is also said that the State banks on the Continent generally facilitate the importation of gold, but place difficulties in the way of its exportation. For example, it has been remarked that the Imperial Bank of Germany has at times attracted gold by making advances for short periods on exceptional terms on condition that gold is imported for the purpose of repaying such advances. On the other hand pressure is brought to bear on merchants and bankers to prevent the exportation of gold from that country.

Difficulty of obtaining gold on the Continent. Q. 1444-6.

The Bank of France, while objecting to part with gold except in small quantities for internal purposes, charges a premium on bar gold when required for export.

43. The above are all the arguments which we think it necessary to notice in support of the alleged appreciation of gold as deduced from the facts relating to the supply of and the demand for that metal.

44. On the other hand it is contended—

(a.) That, while the supply of gold from the mines has undoubtedly fallen off, the effect of such a diminution has been inappreciable, owing (as was pointed out with regard to silver in § 22) to the magnitude of the stock already in existence.

Insignificance of decrease in supply. Q. 7448.

Dr. Soetbeer's estimate of the production of gold since the end of the 15th century is 1,553,415,000*l.*; and an annual supply of 20,000,000*l.* would consequently be about 1½ per cent. on that stock, while the actual diminution in the supply which has taken place during the last 15 years would only amount to ¼ per cent. per annum.

(b.) That the insignificance of this diminution is demonstrated by the fact that, for all purposes for which it is required, gold is as plentiful as ever. In support of this view the figures given in § 42 are quoted. And it is pointed out that the allegation noticed in § 41 with regard to the increased use of gold for industrial purposes would, if true, tend to show that the demand for gold for monetary purposes was adequately met.

Q. 7709.

(c.) That the rate of discount has been both lower and less subject to fluctuation than in previous periods.

Rate of discount lower and more uniform.

The rate of discount, it is said, is conclusive evidence as to the extent of the supply of gold for monetary purposes, for it is the price paid for the temporary command of that metal, or at any rate for the command of something which depends upon and varies directly with the supply of the metal, and must consequently be an accurate indication of the relation subsisting between the demand for and supply of gold at the time when it is fixed.

Q. 7774-93.

In further illustration of this view, it is pointed out that any diminution of the bank reserves below their normal limit is almost invariably followed by a rise in the rate of discount, which in its turn tends to replenish the reserves; while any material increase in the reserves is followed by a lowering of the rate, and that these results are produced with such uniformity as to establish a causal connexion between movements in the available supply of gold and in the rate of discount.

The average rate of discount at the Banks of England, France, and Germany, with the number of changes of the rate, in quinquennial periods from 1861 to 1885, is as follows:—

Period.	Bank of England.		Bank of France.		Bank of Germany.	
	Average Rate per Cent.	Total Number of Changes.	Average Rate per Cent.	Total Number of Changes.	Average Rate per Cent.	Total Number of Changes.
1861-65	4.90	59	4.83	36	4.47	12
1866-70	3.62	36	3.07	12	4.67	16
1871-75	3.75	73	4.86	8	4.50	17
1876-80	2.87	29	2.65	7	4.17	27
1881-85	3.43	32	3.34	6	4.23	12

From these figures it is inferred that less difficulty has been found in recent years in maintaining and replenishing the stock of gold in the reserves of the principal banks; and it is only through the state of these reserves that the supply of gold for monetary purposes produces any effect upon the transactions of commerce.

(d.) That even admitting the increased demand for gold in some countries, and the decrease in the annual supply from the mines, the total mass available for commercial purposes (which as stated in (a.) is the more important consideration) has not diminished but increased.

Total stock increased, though differently distributed.

All that can have been effected by the increased demand is a different distribution of the stock of gold from that which formerly obtained; and the proportion in which the stock is distributed among the different countries of the world is immaterial.

Each country will, so far as its financial position allows, secure such a share of the stock as is required by, and is appropriate to, its individual necessities.

However great that share may be in one country, and however little in another, the general level of prices over the whole area and in the long run will be uniform.

Increased economy of gold.

Q. 1336-40;  
6648-52;  
7736-41;  
7799-7802.

(e.) That from a variety of causes, some of which have only recently begun to operate, and others of which have operated with greater effect since 1873 than before, the quantity of gold required for the commercial transactions of the world has diminished, and what is actually required is enabled to do its work more rapidly and more economically. It cannot, therefore, be said that, for practical purposes, the available supply of gold has been diminished.

Among the causes which are said to have contributed to this increased economy in the use of gold may be mentioned the great increase in the number of branch banks in this country, the larger use of cheques, postal orders, and other instruments of credit, the creation of telegraphic transfers, and the extension of banking accommodation and of the clearing system on the Continent.

New demands exaggerated.

Q. 1354.

(f.) That the effect of the new demands referred to in §§ 34-39 upon the available stock of gold has been much exaggerated. The real demand has been less than the apparent demand owing to the consumption being, in some cases, counted twice over. Gold having been coined in one country is exported to another and appears in the returns of both.

Further, it is stated that a considerable proportion of the gold required for the fresh demands has been taken from hoards (especially in France) and other sources where it was practically withdrawn from use.

Visible supply no test of appreciation.

45. On the other side it is rejoined—

(a.) That neither the apparent abundance of gold, nor its increased use for other than monetary purposes, can of themselves indicate that gold has not appreciated, since the prices of commodities must always accommodate themselves to the supply of gold. It is of the essence of a monetary standard that it should absorb all the metal of the standard which is not required for other purposes. The demand for the metal of the standard is therefore necessarily unlimited; the strength of that demand, or the value of the metal, for the time being, is represented by the general level of prices. Whatever quantity of the metal is required at that value for non-monetary purposes is absorbed, and the balance is taken into the currency. Any fluctuation in the demand for the metal will be exhibited in the increase or decrease of its purchasing power; and as the purchasing power of gold has increased in recent years, it cannot be said that the demand for gold for currency purposes is satisfied.

The increased use of gold for non-monetary purposes does not prove that gold has not appreciated, inasmuch as its use for those purposes is affected by increase of population, of wealth, and especially of savings, as well as by fashion, and its increase in value relatively to silver may lead to its being hoarded in increasing quantities.

Q. 5356-9.

(b.) That the supply of gold in such institutions as banks and national treasuries is no test of its scarceness.

The reserves in banks are affected by many other considerations besides those depending upon the supply of the metal. An increase in the reserves may simply represent an increased tendency to hoard, with the effect of increasing the demand for, and consequently the value of gold; or it may be due to an increase in the amount of business, or to a change in the mode of doing business.

It is impossible to assume that the banks in question hold more gold than is considered desirable, and as they show a decided tendency to accumulate gold and an unwillingness to part with it, the fact that their reserves have increased cannot be urged as an argument in favour of the alleged abundance of gold. Much of the accumulation shown in the figures above given may also be explained by the increasing tendency to replace a metallic by a paper circulation. A larger amount of specie is therefore found in bank reserves and a smaller amount in the hands of the public.

The following table, for example, of the average note circulation of the Bank of France, and the average amount of bullion held against it, shows an increase since 1860-64 of upwards of 81,000,000*l.* in the former item and upwards of 80,000,000*l.* in the latter.

Period.	Note Circulation.	Ballion.
	£	£
1860-4	30,920,000	14,460,000
1880-4	109,110,000	78,490,000
1885	115,700,000	86,050,000
1886	112,650,000	94,900,000

(c.) The connexion above stated between the rate of discount and the supply of gold is disputed. The rate of discount, it is said, depends upon many causes which are quite independent of the supply of gold. Fluctuations in the amount of gold in the bank reserves may produce a temporary effect upon it; but its permanent level, or its average level during a series of years, will be settled by other considerations. Those who hold this view contend that the rate of discount represents not the price paid for the use of gold, but the price paid for the use of floating capital; and as one effect of a scarcity of gold is, through falling prices, to check enterprise and speculation, the demand for capital would naturally be diminished, and the rate of discount would fall with it. The rate of discount in fact depends largely upon the briskness or slackness of business.

Low rate of discount necessarily accompanies scarcity of gold.

Q. 5352-6.

So far, therefore, from a low or uniform rate of discount proving the existence of an adequate supply of gold, it is not only consistent with, but the necessary concomitant of, a scarcity of that metal.

Experience further shows that during periods when both the production and the stock of gold were large, the rate of discount was frequently very high.

(d.) That the chief demand for gold in recent years has come from the United States, and the effects of a reduced supply of gold, relatively to the wants of the community, would ordinarily be experienced in the first instance in that country.

If such want of gold caused prices to fall in the United States, or kept them lower than they would otherwise have been, the influence on prices would be transmitted to all other countries with which the United States had commercial intercourse, through the operations of the international trade.

(e.) That there is no foundation for the assertion that an increased demand for gold merely causes a different distribution of the metal, and has no effect upon its value. If a change in the distribution of gold among the different countries of the world is immaterial, it is impossible to explain why so much trouble is taken to prevent gold from flowing from one country to another. A proper distribution of the precious metals, so far from being immaterial, is essential to the efficient performance of their functions; and gold if it is hoarded or accumulated beyond the point necessary for the transaction of current business and the maintenance of credit (as would now appear to be the case in many countries) is practically withdrawn from use.

Importance of proper distribution of the metal  
Q. 3982-4.

(f.) That the effect of the methods for economising gold referred to in the preceding paragraph, so far as they relate to a period since 1873, has been much exaggerated.

Alleged economies of gold.

Mr. Bagehot stated, in 1873, that the period from 1844 had "been almost marvellous in its banking development," and there is no evidence of any remarkable progress since that time. The arguments drawn from the extension of the use of postal notes, and from the increase in the number of small cheques, fail to indicate the amount of the economy of gold effected in this way, and no attempt is made to show how far such economy of gold (if any) is balanced by such causes as the increased demand for gold due to increase of population, or by the growing tendency to pay cash instead of running up bills.

Q. 3746.

There has, no doubt, been a large increase in the number of postal notes issued yearly, but the economy of gold effected by this means depends not on the aggregate amount of such notes issued in a year, but on the average number outstanding at one time. The number outstanding at one time represents about 270,000*l.*; of this about 70,000*l.* represents sums so small that they could never have been paid in gold. The balance (200,000*l.*) represents the maximum possible economy of gold, but the real economy is evidently much less, as postal notes have, to a large extent, merely taken the place of postal money orders, and probably other means of remittance.

(g.) That the inconclusive nature of the evidence respecting the alleged economy in the use of gold, founded upon the development of credit and the extension of banking accommodation, is shown by the fact that the country which has absorbed most gold in recent years is the United States of America, though there is no country in which so great a development of credit and banking has taken place.

## Hoarding

(h.) That there is no evidence as to the amount of gold which was drawn from hoards in order to satisfy the new demands; that it is unlikely that the habit of hoarding was finally abandoned in 1873; and that the amount then withdrawn has probably since been replaced.

## Arguments drawn from fall of prices.

46. Those who maintain the view that gold has become scarce in proportion to the work which it has to perform, further adduce a class of arguments, drawn, not from the facts relating to the supply of and demand for the metal, but from the quantity of other commodities for which it will exchange.

The prices of commodities are, it is said, the value of those commodities expressed in terms of gold; they represent the relation for the time being between gold on the one hand and commodities on the other; and that relation will be determined from time to time by the quantity of commodities offered on the market in exchange for gold, and the quantity of gold offered in exchange for commodities. A fall of gold prices is therefore synonymous with a scarcity of gold.

## Q. 5181-5.

Starting from these premises, it is urged that there has been a general fall of prices measured in gold, while prices in countries where a silver standard prevails have not risen, and have in some cases even fallen.

## Index numbers.

47. The principal evidence adduced in support of this view is that derived from the system of index numbers.

This method of comparing the general level of prices in different periods is obtained in the following manner:—

Certain articles are selected for the purpose of comparison; the price of each at a given date is represented by a standard number—say 100; the variations in price in each subsequent year are noted, and a proportionate addition to or subtraction from the standard number is made.

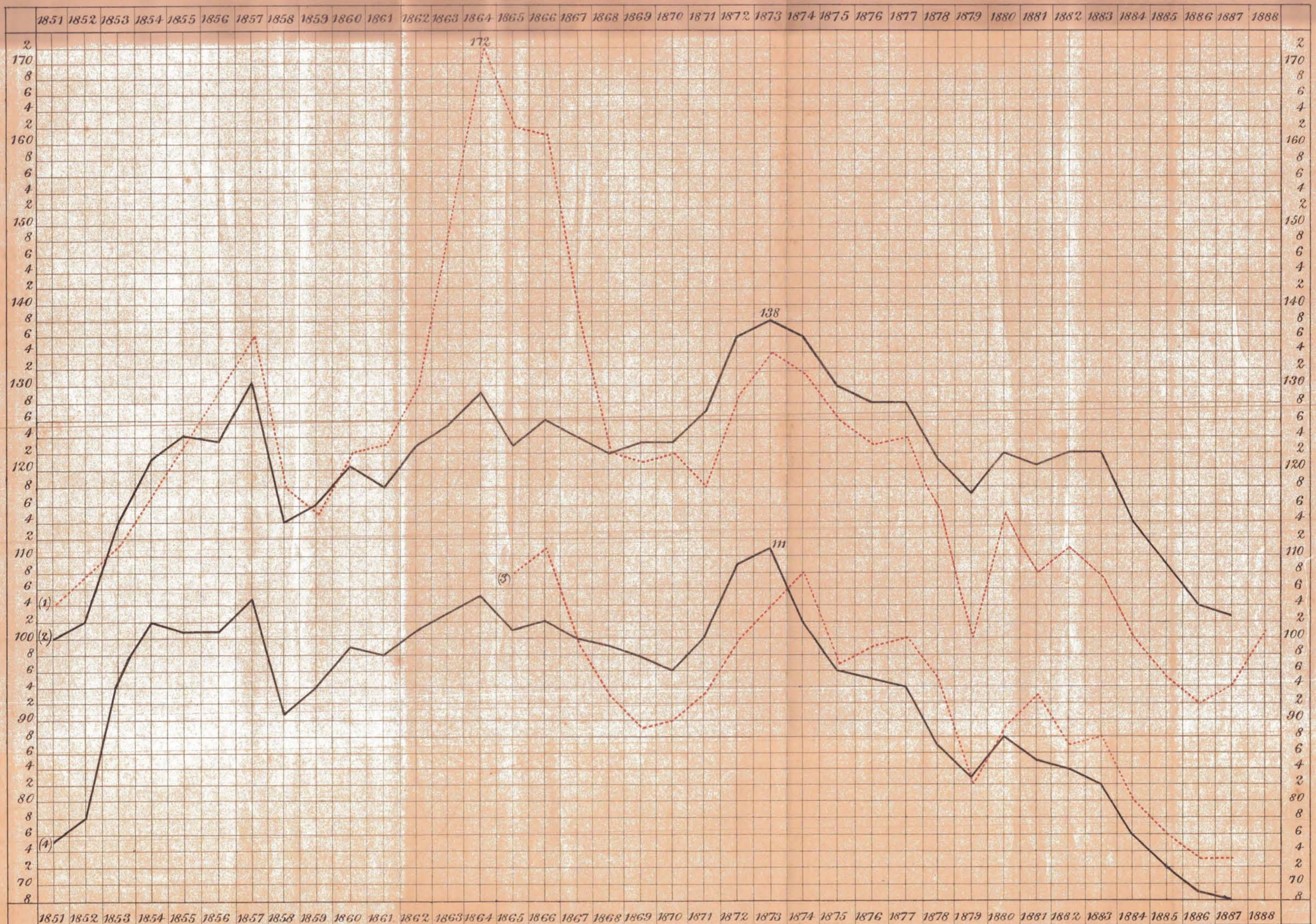
By adding together the numbers so obtained a general view of the rise or fall of prices is obtained.

48. Several tables of prices constructed on this principle have been compiled in recent years. The best known are:—

- (i.) The table annually published by the "Economist" newspaper, which gives the wholesale prices of 22 of the principal articles on the London market, the basis of comparison being the average prices for those articles in the five years 1845-50.
- (ii.) A table prepared by Mr. A. Sauerbeck, which deals with the London prices of 45 wholesale commodities, the period taken as the basis of comparison being the 10 years 1867-77, and his record of prices extending as far back as 1837.
- (iii.) Tables prepared by Mr. Inglis Palgrave for the Royal Commission on the Depression of Trade, taking the period 1865-69 as the basis of comparison. These tables deal not only with prices in England, but in France, and India; and in framing them regard has been had to the relative importance of the several articles included in the list.
- (iv.) Dr. Soetbeer's tables, which take the period 1847-50 as the basis of comparison and deal with the prices of 100 articles on the Hamburg market, and with 14 of the principal articles exported from the United Kingdom.
- (v.) Tables prepared by Mr. Giffen from the Trade Returns of the United Kingdom, going back to 1840 in the case of exports and to 1854 in the case of imports.



# DIAGRAM SHOWING THE COURSE OF PRICES FROM 1851-1888.



(1) "Economist" Index Number, 100 = Average of 1845-50.

(2) Dr. Soetbeer's, Index Number, 100 = Average of 1847-50.

(3) "M. Palgrave's arrangement assigning to each article

(4) M. Sauerbeck's Index Number, 100 = Average of 1867-77.



49. The following statement shows in a concise form the results arrived at by these several methods:—

Period.	1. "Economist." 22 Wholesale Commodities in England. 100 = Average of 1845-50.	2. Dr. Soetbeer. 100 Hamourg Articles and 14 Articles of British Export. 100 = Average of 1847-50.	3. "Economist." (Similar to 1, but re-arranged on basis of 100 = Average of 1865-69.)	4. Mr. Palgrave. (Similar to 1, but assigning to each article its relative importance.) 100 = Average of 1865-69.	5. Mr. Sauerbeck. 45 English Prices. 100 = Average of 1867-77.	6. Mr. Giffen. Prices of British Exports. 100 = Prices of 1854.	7. Mr. Giffen. Prices of British Imports. 100 = Prices of 1854.
1851	104	100	—	—	75	—	—
1852	—	102	—	—	78	—	—
1853	111	114	—	—	95	—	—
1854	—	121	—	—	102	100	100
1855	—	124	—	—	101	97	105
1856	—	123	—	—	101	—	—
1857	136	130	—	—	105	103	110
1858	118	114	—	—	91	—	—
1859	115	116	—	—	94	102	99
1860	122	121	—	—	99	—	—
1861	123	118	—	—	98	—	—
1862	130	123	—	—	101	—	—
1863	158	125	—	—	103	—	—
1864	172	129	—	—	105	—	—
1865	162	123	—	108	101	137	118
1866	161	126	—	111	102	—	—
1867	137	124	—	99	100	—	—
1868	122	122	—	93	99	119	108
1869	121	123	—	89	98	—	—
1870	122	123	91	90	96	—	—
1871	118	127	90	93	100	—	—
1872	129	136	97	100	109	—	—
1873	134	138	102	104	111	132	107
1874	131	136	100	108	102	—	—
1875	126	130	95	97	96	114	101
1876	123	128	93	99	95	105	96
1877	124	128	94	100	94	101	99
1878	115	121	87	95	87	—	92
1879	100	117	76	82	83	92	88
1880	115	122	87	89	88	—	93
1881	108	121	81	83	85	92	92
1882	111	122	83	87	84	—	—
1883	107	122	79	88	82	92	89
1884	100	114	75	80	76	90	84
1885	95	109	70	76	72	87	79
1886	92	104	69	73	69	82	74
1887	94	103	70	73	68	—	—
1888	101	—	75	—	—	—	—

We also annex a diagram showing a comparison of the results arrived at in columns 1, 2, 4, and 5.

50. To the above may be added the following re-arrangement of Mr. Sauerbeck's figures, showing the average prices for each period of 10 years since 1837, by which method the general tendency of the movement is more readily seen, and the effect of temporary fluctuations is eliminated.



## AVERAGE INDEX NOS. of PRICES for 10 years.

1837-46	-	-	-	93	1858-67	-	-	-	99
1838-47	-	-	-	98	1859-68	-	-	-	100
1839-48	-	-	-	91	1860-69	-	-	-	101
1840-49	-	-	-	88	1861-70	-	-	-	100
1841-50	-	-	-	86	1862-71	-	-	-	100
1842-51	-	-	-	83	1863-72	-	-	-	101
1843-52	-	-	-	82	1864-73	-	-	-	102
1844-53	-	-	-	83	1865-74	-	-	-	102
1845-54	-	-	-	85	1866-75	-	-	-	101
1846-55	-	-	-	96	1867-76	-	-	-	101
1847-56	-	-	-	88	1868-77	-	-	-	109
1848-57	-	-	-	89	1869-78	-	-	-	99
1849-58	-	-	-	90	1870-79	-	-	-	97
1850-59	-	-	-	92	1871-80	-	-	-	96
1851-60	-	-	-	94	1872-81	-	-	-	96
1852-61	-	-	-	96	1873-82	-	-	-	98
1853-62	-	-	-	99	1874-83	-	-	-	90
1854-63	-	-	-	100	1875-84	-	-	-	87
1855-64	-	-	-	100	1876-85	-	-	-	85
1856-65	-	-	-	100	1877-86	-	-	-	82
1857-66	-	-	-	100	1878-87	-	-	-	79

51. The general result to be derived from a comparison of these investigations shows, it is contended, a rise in prices from the date of the Australian and American gold discoveries to the year 1873, and an almost continuous fall since the latter date, which has reduced prices to a lower point than at any previous period in this century.

Steadiness  
of silver  
prices.

52. It is at the same time pointed out that no such change in the level of prices is observable in countries using a silver standard. The statistics on this point are necessarily imperfect, relating as they do to prices in India only.

As regards that country we have been furnished with the result of investigations made by Mr. O'Connor, Assistant Secretary to the Government of India in the Department of Finance and Commerce, into the prices of the staple food-grains in different parts of India, and of the principal articles of export.

Q. 768 ;  
1678 ; 2419 ;  
8747.

It is, however, very difficult to draw any useful or reliable conclusions from these figures. The conditions of the country, the habits of the people, the isolation of markets owing to want of communication, the constant variations owing to the influence of the seasons, and many other causes, make it impossible to treat the records of Indian prices as of equal value with those referred to in the preceding §§ of this report. It may, however, be safely said that there is no evidence of a rise in prices in India; and there is a general agreement among the witnesses whom we have examined on the point, that the purchasing power of the rupee in that country has not fallen.

53. It is contended that these results, namely, the general, if not uniform, fall in gold prices, and the absence of any corresponding rise in silver prices, support the view that the changes observed are due to a relative scarcity of gold as compared with all other commodities, including silver.

Professor  
Nicholson's  
mode of  
measuring  
prices.  
Q. 5435-44.

54. Another method of determining the difference from time to time in the purchasing power of the standard of value is described in Professor Nicholson's evidence. The investigations which he has conducted by this method lead him to doubt whether the decrease in the value of gold, which is usually attributed to the period following the great gold discoveries, was as great as is usually supposed; but he finds that in the period from 1875 to 1885 there is evidence of a rise in the value of gold very similar in character, though differing slightly in degree, from that indicated by the system of index numbers.

We are unable to express any opinion upon the value of the corroborative evidence which these investigations are said to supply.

Stationary  
character of  
income tax  
returns.

55. Attention is also called to the stationary character of the revenue produced by the income tax since the year 1873.

The produce of each penny of the tax imposed, together with the gross amount of Q. 3951, property assessed per head of population, in the under-mentioned years was as follows:—

Year ended	Produce of each Penny of Income Tax.	Gross Amount of Property and Profits assessed per Head of Population.
	£	£ s.
1 April 1860 -	*1,119,470	11 6
1861 -	1,123,453	11 6
1862 -	1,162,027	12 1
1863 -	1,193,783	12 2
1864 -	1,218,863	12 5
	Average 1860-64 -	12·0
1865 -	1,312,725	13 4
1866 -	1,380,362	13 9
1867 -	1,415,709	14 1
1868 -	1,428,215	14 3
1869 -	1,435,887	14 3
	Average 1865-69 -	14·0
1870 -	1,476,297	14 4
1871 -	1,592,030	14 9
1872 -	1,654,276	15 3
1873 -	1,741,088	16 1
1874 -	1,854,644	17 1
	Average 1870-74 -	15·5
1875 -	1,945,260	17 6
*1876 -	1,978,084	17 7
1877 -	1,904,770	17 2
1878 -	1,909,005	17 3
1879 -	1,879,073	17 1
	Average 1875-79 -	17·4
1880 -	1,846,664	16 9
1881 -	1,866,636	17 0
1882 -	1,915,683	17 2
1883 -	1,962,871	17 4
1884 -	2,016,785	17 6
	Average 1880-84 -	17·2
1885 -	2,002,222	17 5
1886 -	1,980,395	17 3
1887 -	1,970,000 } Estimated.	17 1

As production has been rapidly increasing during the whole of this period, it is argued that taxable income per head of population should have increased in a somewhat similar proportion.

56. The rate of interest on permanent investments is also declining for reasons, it is urged, similar to those which have been described above as affecting the rate of discount. When gold is scarce and commercial activity is checked by the resulting fall of prices, the demand for permanent investments increases and the price of such securities rises. Owing either to the actual or the apprehended scarcity of gold there is a tendency to invest in securities bearing a fixed interest payable in gold, which raises their price and reduces the net return obtainable from them.

Rise in value of gold securities.

\* Previous to the year 1876-77 incomes under 100*l.* were exempted, and on incomes between 100*l.* and 300*l.* an abatement of 80*l.* was allowed.

From the year 1876-77 inclusive the limit of total exemption was raised to 150*l.*, and on incomes between that amount and 400*l.* an abatement of 120*l.* was allowed.

The result of these two measures is estimated to produce a loss of between 50,000*l.* and 60,000*l.* per penny.

Fall of  
wages.  
Q. 7621;  
7950-3.

57. Further evidence is adduced from the fall in the price paid for many kinds of labour.

It is stated that there has been a large and general fall in the rate of wages paid to agricultural labourers, and a somewhat less severe fall in wages paid for the lower class of skilled labour in the manufacturing districts; that even where the rate of wages has been fairly maintained employment has become both scarcer and more irregular, and that strikes against the reduction of wages have become more frequent, showing increased friction in the labour market; that after making due allowance for the imperfect character of the statistical evidence with regard to wages, and for special causes which have affected the rate of wages in particular trades, there is sufficient evidence to support the conclusion that a general fall of wages is in progress, that it has probably not yet reached its limit, and that no influences are visible which are likely to prevent or reverse the fall.

Nexus  
between  
gold and  
prices dis-  
puted.

Q. 7224;  
7722-9.

58. Much controversy has taken place both with regard to the fact above alleged of a general fall in prices and with regard to the cause to which it is ascribed.

Before dealing with these questions, however, we must notice a preliminary objection which traverses the assumption that there is any necessary relation between the general level of prices and the scarcity or abundance of gold.

Because the prices of commodities are expressed in terms of gold, it has been assumed that a transaction of sale or purchase is in substance what it purports to be in form, namely, an exchange of commodities against gold; and this assumption, it is said, necessarily underlies all the arguments with regard to the supply of gold which are drawn from considerations affecting the prices of commodities.

But it is pointed out—

- (i.) that in any one area the nominal value of the transactions is always enormously greater than the quantity of gold available; and that it would therefore be impossible for all the transactions pending at any one moment to be actually carried out in the terms in which they are expressed;
- (ii.) that, as a matter of fact, gold actually passes in only an infinitesimal number of transactions;
- (iii.) that in all other transactions the consideration which passes from the purchaser to the seller is really not gold, but a promise to pay gold;
- (iv.) that the prices of commodities will consequently be regulated, not by the quantity of gold, but by the quantity of such promises, which will be received in the discharge of debt as equivalent to gold;
- (v.) that the quantity of such promises to pay, or in other words the volume of credit, has, no doubt, some connexion with the quantity of gold; but that the relations between the two are very complex and obscure, vary in different countries and different states of society, and cannot be reduced to any definite rule;
- (vi.) that the connexion between the supply of gold and the prices of commodities is consequently not direct, but indirect, acting through the medium of credit; and that a rise or fall in the general level of prices may therefore prove nothing as regards the supply of gold, since it may be due to a diminution or expansion of the volume of credit without any corresponding alteration in the amount of gold.

Reply to,  
above  
contention.  
Q. 5465-8;  
9629.

59. To these arguments it is replied—

- (i.) that a distinction must be drawn between that portion of the supply of gold which is actually circulating as coin and is used in the smaller transactions of commerce, and that portion of the supply which is held in reserve by banks and similar institutions as a basis for the credit which they create;
- (ii.) that between gold in the latter form and the quantity of credit there is a direct arithmetical relation, which may vary in different countries and in different states of society, but which in any one country or any one state of society will be tolerably uniform;
- (iii.) that whatever proportion the volume of credit may bear to the quantity of gold on which it is based, the value of the former must in the long run conform to the value of the latter;
- (iv.) that the supply of gold also operates directly upon the prices of commodities by its effect upon the rate of discount;

(v.) that in face of the fact of an alteration of 30 per cent. in the relative value of gold and silver in recent years, and a corresponding relative alteration in the gold and silver prices of the commodities interchanged between the gold-using and the silver-using countries, it is impossible to deny that the standard of value is intimately connected with prices.

We shall discuss the several arguments here raised at a later period; for the present it will be sufficient to state them in this concise form.

60. Returning now to the conclusions drawn from the system of index numbers, it is contended—

Criticism of  
method of  
index  
numbers,

(a.) That to prove a general rise or fall of prices it is necessary to include in the investigation a much wider field than is covered by the tables of index numbers.

They are confined almost entirely to the wholesale prices of raw materials, and do not take into account the prices of finished manufactures or of retail trade. Q. 7756-63.

Moreover, they make no reference to such important items as land, houses, and other descriptions of property either in this or other countries, salaries and wages, or the price of services generally. Such tables, it is said, to be complete, should include everything which is bought or sold with money.

The number of articles selected, which is only 22 in the tables of the "Economist" and Mr. Palgrave, has been extended to 45 by Mr. Sauerbeck, and to 114 by Dr. Soetbeer; but it is argued that even the latter number is far too small to afford a satisfactory basis for any general conclusions.

(b.) That while the selection of the several articles does not appear to be based on any definite principle, the addition of one item or the omission of another will produce widely divergent results.

(c.) That though the general features of the course of prices in all the tables bear some similarity to each other, there is sufficient variation in detail to throw grave doubts on the accuracy of the conclusions which it is sought to draw from them.

(d.) That general conclusions drawn from averages are always liable to be fallacious, because the same average result will be produced by a number of instances near the mean as by one instance at either extreme, while the conclusions to be drawn from these results would differ materially.

(e.) That when, as in the present case, there may be at work a general cause, such as the scarcity of gold, affecting all prices, and a number of specific causes, such as increased or diminished facilities of production, affecting different articles differently, any conclusion drawn from averages concerning the operation of the general cause must be fallacious, unless it be assumed that the different specific causes are opposite in their effects, and balance one another. This is obviously not the case here. The different specific causes affecting each article are all, or almost all, causes which operate in the direction of lowering prices.

(f.) That the tables of index numbers fail in not giving due weight to the relative importance of the different articles included in the calculation. A fall of 20 per cent. in one article produces as great a difference in the final result as a fall of 20 per cent. in another; but the importance of the fall in each case must necessarily depend upon the importance of the article, relatively to others, in the general consumption.

(g.) That the qualities and descriptions of articles vary so much from year to year and period to period as to make it very doubtful whether the price quoted represents a similar article of similar quality throughout the whole period.

61. The above criticisms are directed chiefly against the *method* adopted in the tables of index numbers.

and of  
conclusions  
drawn from  
them.

The *conclusions* drawn from those numbers are also disputed on the following grounds:—

It is asserted—

Q. 9138-40.

(a.) That there is no evidence of any general fall of prices such as would be necessary to support the conclusion that the fall is due to an alteration in the value of gold. Any such cause would operate with tolerably uniform effect over the whole range of prices; whereas, in point of fact, while some prices have fallen, others have risen, and others have remained stationary.

For example: the 100 articles included in Dr. Soetbeer's tables are divided into seven classes:—

- (1.) Agricultural produce.
- (2.) Animal food.
- (3.) Fruits, oil, and wine.
- (4.) Colonial produce.
- (5.) Mineral produce.
- (6.) Textile materials.
- (7.) Miscellaneous.

If the average index numbers for each of these classes in 1881–85 are compared with the corresponding numbers for the period 1851–55, when the gold production was at its highest, it will be found that there is a rise in classes 2, 3, and 4, a fall in classes 5, 6, and 7, while the 1st class has remained almost stationary. Or again if 1881–85 is compared with the period 1866–70 which immediately preceded the commencement of the alleged scarcity of gold, a similar result is obtained; classes 2 and 3 rose, classes 1, 5, 6, and 7 fell, and class 4 remained almost stationary.

(b.) That apart from any influence affecting gold, sufficient explanations on independent grounds can be given of the movements in the price of each article in question, whether those movements have been in one direction or another; and that in the case of those articles which have remained stationary in price, or which have risen, it is incumbent upon those who maintain that there has been a general fall to show why those articles have proved exceptions to the rule.

(c.) That in addition to the circumstances affecting each article separately, several causes have been in operation which might have been expected to produce a fall in price without reference to the standard of value itself:—

- (i.) The increased severity of competition, which has become much more intense since the date to which the commencement of the fall of prices is ascribed.
- (ii.) The immense increase in the quantity of commodities produced, coinciding with (and in part resulting from) a diminution in the cost of production.
- (iii.) Increased facilities of, and reduction of charges for, transport and communication, which operate in the same direction as a diminution in the cost of production.
- (iv.) The increase in the productive power of the world, due to the absence of any great European wars such as in the 20 years preceding 1873 periodically occasioned the destruction of a large amount of capital; together with the remarkable development of America since her recovery from the effects of the Civil War.
- (v.) The increased efficiency of capital, owing to the improved organisation of credit.
- (vi.) The fall in the value of silver, which has a tendency to lower the gold price of commodities produced in or exported to countries using a silver standard, and also, through these commodities, the prices of others not directly affected by the value of silver.

Silver-using countries are content to take for their produce the same silver price as before the fall, which means a lower gold price. They cannot, therefore, give more silver for European produce than they did before. Consequently the gold prices of both classes of produce fall, and with them all other gold prices.

This argument, which is also used by some of those who maintain the view that gold has itself become scarcer, will be noticed at greater length in another portion of our Report. It is adduced in this context as an independent explanation of the fall of prices.

(d.) That the fall of prices shown by the index numbers has attracted attention chiefly because it occurred after a period of exceptionally high prices. The year 1873 was the culminating point of the upward movement in prices which had been in progress for some years previously; and that date happened also to coincide with the great changes in the monetary policy of Germany and the Latin Union. It is not unnatural therefore that the subsequent fall in prices should be ascribed to the effects of those changes; but it is pointed out that the circumstances of the years immediately preceding 1873 were very peculiar, and likely to have been productive of economic disturbance, apart from any question of the supply or consumption of

Q. 7407;  
7764–73;  
7805–40.

Q. 9135.

gold. Large accumulations of capital, owing to the depression of trade in 1865-69, abundant harvests, and a continental war creating a great demand for manufactured goods, all contributed to produce a period of general excitement and speculation. It is therefore urged that the abnormal circumstances of the years 1871-73 make that period an unsound basis for comparison.

(e.) That periods of inflation, such as that of 1871-73, are naturally followed by corresponding periods of depression; and that the excessive duration of the depression in the present instance is due to the exceptional rapidity and intensity of the previous inflation.

(f.) That fluctuations of equal range have taken place in prices in previous periods when the abundance or scarcity of gold was not in question.

(g.) That the fall, so far as it is proved, has taken place in wholesale trade, in the transactions of which little or no gold is used, and not in retail trade, where the direct effect of a scarcity in the circulating medium might have been expected to make itself felt.

62. In reply to these criticisms it is suggested—

(a.) That the results obtainable from systems of index numbers, if, like all other averages, they are not absolutely accurate in every detail, are sufficient to indicate the *tendency* of the course of prices.

Arguments  
in support  
of conclusions  
drawn  
from index  
numbers.

(b.) That the range of articles covered by the several tables is sufficiently extended for all practical purposes, including as it does in the case of Dr. Soetbeer's investigations no less than 114 articles, and in Mr. Sauerbeck's all those articles the value of which in the United Kingdom, whether produced at home or imported, exceeded 1,000,000*l.*

(c.) That the relative importance of the different articles has been allowed for in Mr. Palgrave's and Mr. Sauerbeck's tables, and that the corrections thus introduced, though important, do not invalidate the conclusions formed from a comparison of all the tables.

(d.) That the totally distinct method of measuring the purchasing power of gold employed by Professor Nicholson gives very nearly the same results as the index numbers.

(e.) That the index numbers of recent years are conclusive as regards the *fact* of an increase in the purchasing power of gold in the case of, at least, a very large number of important commodities.

The fact of there being some variation in detail in the different tables does not throw any doubt on the general conclusion to which all the tables point; absolute agreement could only be expected if the price of each article from time to time depended solely on the appreciation or depreciation of the standard, or if all other influences which tend to alter price acted always with the same force and in the same direction in the case of every commodity.

(f.) That the assumption that the fall in the average level of the prices of these commodities can be completely explained by the cheaper production of one, or of a considerable number, of them is unwarranted, because—

(i) it does not necessarily follow that the lowering of the cost of production of even a large number of articles would have the effect of lowering the average level of prices, as the saving so effected would create a demand for and so raise the prices of other articles;

(ii) a diminution in the cost of transport may tend to lower the price of such articles as are bulky in relation to their value in the country to which they are exported, but would tend to raise the price in the place of origin; and could only have a very remote effect upon the *general* level of prices;

(iii) it is not proved that there has been a greater proportionate increase in the quantity of commodities since 1873 than in any previous period of equal duration.

(g.) That the universality of the fall, at least in recent years, is a strong argument in support of the view that it is due to the general cause above indicated.

Of the 45 principal articles with which Mr. Sauerbeck deals, not one showed a rise in price in either 1885 or 1886 as compared with the average of 1867-77, though the figures for 1887 may possibly show a different result in one or two instances. When Professor Jevons examined the course of prices after the gold discoveries the number of instances which were opposed to the conclusion he then formed was seven out of 36.

(h.) That it is not necessary to prove a fall in *all* gold prices, in order to show that there has been an appreciation of gold. If gold has not appreciated because *all* gold prices have not fallen, it may equally well be argued that as all silver prices have not risen, silver has not depreciated; and that consequently the two metals retain the relation which they had before 1873.

(k.) That the question is not simply, whether gold has appreciated or not, but whether the alteration in the relative value of gold and silver is due to appreciation of gold or depreciation of silver, and that those who hold that there has been no appreciation of gold, and that the change in the relative value of the precious metals is entirely due to depreciation of silver, should be prepared to point out in the silver-using countries a general rise in the silver prices of commodities (over and above what is due to the ordinary laws of demand and supply) bearing some proportion to the extent to which silver is said to have depreciated, and to explain, on grounds peculiar to each article, why so many articles in silver-using countries have not risen in price or have even fallen.

(l.) That even if it be assumed that retail prices have not fallen as much as wholesale prices, and that gold is more used in retail than in wholesale dealings, it does not follow that a scarcity of gold would not affect wholesale prices sooner than retail prices, and that whatever the cause may be which is lowering prices, it always affects wholesale sooner, and more largely, than retail prices.

(m.) That no doubt the qualities and descriptions of articles may vary from period to period, but that those who prepared the index numbers have tried as far as possible to ensure that the price taken should always be for an article of the same quality, that there would be a tendency for errors arising from variations of this character to cancel each other in the general average, and that, as on the whole the quality of articles tends to improve, this cause probably leads to the fall in prices being understated, rather than overstated.

(n.) That the figures given in § 35 show that there has been a largely increased demand for gold in the United States, while that is the only article of which the production in the United States has actually fallen off, and that if there had been an increase in the supply of gold sufficient to meet that new demand, and the new demand for Germany and the Scandinavian Kingdoms, prices in other countries would probably be very different from what they now are.

(o.) That there is ordinarily some correspondence in intensity and duration between periods of inflation and depression, which appears to be absent in the present case.

### III. CAUSES AFFECTING BOTH METALS.

Arguments ascribing the divergence between gold and silver to causes affecting both metals.

63. We have now stated the principal arguments which refer the divergence in the values of gold and silver to causes affecting one or other of those two metals.

It remains to point out those which ascribe the change in question to a combination of causes affecting both metals.

They may be divided into two classes:—

- (i.) Those which ascribe the change to the operation of the ordinary laws regulating the supply of and the demand for the two metals.
- (ii.) Those which lay stress on the operation of the bimetallic system in the Latin Union down to 1874, and which ascribe the change which has since taken place to the destruction of the relation theretofore subsisting between the two metals.

64. The former class of arguments has been sufficiently explained in the earlier portion of our Report, and at this point we need not do more than point out the cumulative effect of combining the arguments in §§ 12–17, which relate to the supply of and the demand for silver, with those in §§ 31–42, which deal with the supply of and the demand for gold.

The facts set out with regard to the increased supply of and diminished demand for silver, coupled with the decreased supply of and increased demand for gold are, it is contended, sufficient to account for the facts of the present situation.

Destruction of the bi-metallic ratio.

65. On the other hand it is urged that changes quite as great in the relative supply and consumption of the precious metals have taken place in former periods without producing any of the results now observed; and that a wholly new element has been brought into prominence since 1873 in the destruction of the connecting link between the gold and the silver standard.

Up to that date, it is alleged, there were always one or more countries in which the two metals were linked together as the standard of value, and in which payments could be made at the option of the payer in either metal at a fixed ratio. The independent use of gold and silver as standards of value is consequently an entirely new experiment.

The effect of the existence of this link was, as pointed out in § 18, that the market ratio was controlled and regulated by the legal ratio; and the relative value of the two metals remained steady, notwithstanding variations in the relative production more marked than those which have taken place since 1873. So long as the two metals were by law legal tender to any amount at a fixed ratio the price of silver measured in gold could not and did not vary materially from that ratio.

From the moment however that the free coinage of silver was suspended this action of the bimetallic system ceased to have its effect, and the relative value of the two metals was left to be settled by the independent action of supply and demand.

Those who maintain this view therefore ascribe the divergence in the relative value of the two metals primarily to the repeal of the legislation which up to 1873 confined the divergence within the very narrow limits shown in § 8.

66. It is further urged that the conditions of the supply and demand of the precious metals since 1873 do not support the theory that the change in their relative value is due solely to depreciation of silver.

There has been in recent years a great absorption of both gold and silver by the United States, and the figures given in § 36 show that the supply of new gold to countries outside the United States has fallen off in recent years by 15,000,000*l.* sterling as compared with the annual supply in 1866–70; while the figures in § 27 (c.) show that the supply of silver to the same countries has only increased by 4,500,000*l.* yearly, if silver be valued at the old ratio of 1 to 15½, and by considerably less if silver be valued at its market price, and that the supply of silver to these countries is very little greater than in 1871–75. As regards the question of the demand for silver in those countries it is pointed out that wherever silver was demonetised gold was substituted, and that so far the increased demand for the one metal equalled the reduced demand for the other.

Facts relating to supply of and demand for precious metals do not point to depreciation of silver.

67. It is further pointed out that silver is still the standard of the greater portion of the human race, but that there has been no such increase in the supply of silver to silver-standard countries as would be sufficient to raise prices by the extent to which gold and silver have altered in relative value; that no marked tendency to an unusual rise in wages in the silver-standard countries can be discovered, nor any such change in silver prices in comparison with cost of production as to justify the belief that they have risen from causes primarily affecting the standard; that the theory that gold prices have fallen (say) 28 per cent. from cheaper production of commodities, or from 100 to 72, and that the increased supply of silver has counteracted this tendency in the case of silver prices cannot be maintained, as it involves the assumption that there has been such a supply of silver as to raise silver prices from 72 to 100, or by nearly 40 per cent., and that neither the statistics of the supply and of demand for silver, nor of prices and wages in silver-using countries, afford any support for so extreme an hypothesis.

#### EFFECTS OF THE DIVERGENCE IN THE RELATIVE VALUE OF THE TWO METALS.

68. We have now enumerated the principal allegations which have been made with regard to the *causes* of the changes in the relative value of the precious metals.

We are next directed to inquire into the bearing of these changes upon certain matters of practical business affecting the interests of India and the United Kingdom respectively.

As we have already pointed out in § 2, these changes have been of a twofold character: there have been *fluctuations* in the relative value of the two metals, and there has been a *fall* in the gold price of silver; and as the effects of these two kinds of change are in some respects distinct it will be convenient to consider them separately.

Effects of the divergence in the value of gold and silver.

#### I. EFFECTS OF FLUCTUATIONS.

69. The main importance of the fluctuations consists in their effect upon the exchanges between countries using a gold, and countries using a silver standard. A transaction between two countries in which the same metal is actually in use as

Difficulties arising from exchange fluctuations.



standard is of course arranged without difficulty in terms of that standard, the value of which can only vary between the two countries by an amount not exceeding the expense involved in transporting the metal from one country to the other and coining it there.

But in the case of a transaction between two countries having different standards, the matter becomes more complicated.

There is no common measure of value; the metal composing the standard in one country is little more than merchandise in the other; and many of the advantages of money as a means of facilitating trade are thus curtailed.

70. This inconvenience is reduced to a minimum or disappears altogether if the value of the two metals is comparatively stable; but it is urged that if to the difference in standard is added the uncertainty of variations in the relative value of the two metals, a serious impediment to trade is established. Every transaction is subject to the risk of an alteration in the value of the metal in which payment is to be taken or made. The trader must either run this risk himself or take steps to insure himself against it; and either alternative involves a certain burden at some time or other.

Trade, it is said, is thus rendered not only less profitable, but more speculative, and more irregular; it is diverted from its natural channels; and its volume is influenced by the rise or fall in the value of the precious metals.

71. So far as the actual risk arising from fluctuations is concerned, it is said that the mechanism supplied by the Exchange Banks enables the merchant in general to insure himself against actual loss.

Before he makes his bargain in produce, or simultaneously with it, he can, as a rule, arrange with a bank to buy or sell the necessary remittance.

This accommodation must however be paid for, and constitutes to that extent a real burden upon, and hindrance to, trade.

It is said, moreover, to fall with greater severity upon small traders, who are less able to protect themselves from risk, and who are more hampered by the loss when it does occur, than those whose transactions are more extensive. Competition is thus limited, and the trade tends more and more to become the monopoly of the large capitalists.

It is stated also that there have been times when, owing to great uncertainty, this accommodation has either been withdrawn altogether by the banks refusing to enter into future contracts on any terms, or so restricted as, in either case, to bring business to a standstill for the moment.

72. The trade with China and Japan is said to be even more prejudicially affected by exchange difficulties than that with India. The natural flow of trade between Europe and India is such as to render the above method of avoiding risk more readily available in the case of that trade than in the case of trade with other silver-using countries. The large amount of the Indian Council bills, and the advantage of having this alternative mode of remittance, also enable the merchant to secure better terms. But the exchange with other countries in the East is subject to somewhat greater fluctuations by reason of the less uniform currents of trade; while owing to the less severe competition among themselves, the dealers in exchange are able to exact higher rates; the difficulties of obtaining accommodation and the rate paid for it are consequently increased. The same remark applies to the silver-using countries in South America.

Again, breaches of contract by any of the parties to a transaction which would, under other circumstances, involve little or no inconvenience to those concerned, become of real importance when the loss or inconvenience is aggravated by exchange difficulties. When the exchange is subject to fluctuation from day to day, the failure of a few hours in carrying out a bargain may, by enabling a purchaser to repudiate a contract or claim compensation for non-fulfilment, convert an anticipated gain into a loss, and a new element of speculation and uncertainty is thus introduced which is unknown in trade between countries using the same standard. Against losses of this class no method of insurance is practicable.

73. On the other hand it is contended that the evils above described have been much exaggerated, and that the real burden on trade caused by the difficulties in question is insignificant.

It is pointed out that in all transactions, whether between countries having the same or different standards, the rate of exchange is one of the elements which the

Q. 2237;  
2815-8;  
2853-69;  
3043;  
¶ 121-2.

Operations  
of the Ex-  
change  
Banks.  
Q. 1904-5.

Q. 3266-89;  
3306-16.

Q. 5956.

Q. 2264.

Evils of a  
fluctuating  
exchange  
have been  
exaggerated.

merchant must necessarily take into consideration; that similar difficulties arise in trade with countries having an inconvertible paper currency, where the fluctuations must generally be as great as, or greater than, in the case of silver; that though the difficulties in the case of trade with silver-using countries may be greater in degree than those involved in trade with gold-using countries, they are the same in kind; and that the insurance provided by banking arrangements practically reduces the inconvenience to a minimum.

74. To the argument that, however much the risk may be diminished by such arrangements, it must still be borne by somebody, and must consequently be paid for by somebody, it is replied that, taking the whole mass of transactions between any two countries there is no real risk to be guarded against, the losses on some transactions being balanced by the gain on others.

If a particular fluctuation in the exchange involves a loss on an export transaction from this country to the East, it must simultaneously give rise to a corresponding gain on an export transaction in the opposite direction. To the merchant engaged in both the export and import trade any loss will therefore be balanced by a gain; while as regards others, it is the business of dealers in exchange to balance these losses and gains, and their charges for their services will, by competition among themselves, be reduced to the lowest possible rate, the burden of which will practically be inappreciable.

Another method of avoiding any loss which might arise from uncertainty of exchange is to make simultaneous bargains in respect of all the elements necessary to complete a transaction. This can now be readily done by means of the telegraph. A merchant buys produce in India and sells it in Europe almost at the same moment, fixing at the same time the rate of exchange, and the charge for freight. The whole transaction is therefore based on a rate of exchange as fixed as if there were no difference of standard to be considered. Q. 1905.

75. Besides hampering or preventing trade between gold-using and silver-using countries, the uncertainties of exchange have, it is said, tended to encourage the trade between silver-using countries themselves, to the exclusion of gold-using countries. In a transaction between two countries using the same metal as standard, the element of uncertainty arising from the use of two metals, with the consequent fluctuations in their relative value, is eliminated. Trade between two such countries can be carried on with less risk and less inconvenience than between two countries using different standards, as in the latter case the uncertainty enters into every transaction, and adds to the expense of the machinery by which trade is carried on. Diversions of trade from gold-using to silver-using countries. Q. 2289-2306; 3715; 5808-15.

The tendency of silver-using countries under existing conditions will consequently be to trade with other silver-using countries.

76. In support of this view attention is called to the increase in the number of cotton mills in India, and in the export from that country of cotton yarn and piece goods, which are sent almost exclusively to silver-using countries. Increase in Indian manufacture and export of cottons. Q. 2301-4; 2319-22; 8006-35.

The following table shows the number of cotton mills, spindles, and looms in India, together with the quantity of the cotton yarns and piece goods exported since 1876-77:—

Year.	Number of			Exports of	
	Mills.	Spindles.	Looms.	Cotton Yarn.	Cotton Piece Goods.
1876-7	47	1,100,112	9,189	Thousands of Lbs. 7,927	Thousands of Yards. 15,544
1877-8	53	1,289,706	10,538	15,600	17,545
1878-9	58	1,436,464	12,983	21,332	22,517
1879-80	58	1,470,830	13,307	25,862	25,800
1880-1	58	1,471,730	13,283	26,901	30,424
1881-2	62	1,550,944	14,386	30,786	29,911
1882-3	62	1,654,108	15,116	45,378	41,583
1883-4	74	1,895,284	16,251	49,876	55,813
1884-5	81	2,037,055	16,455	65,897	47,968
1885-6	86	2,110,847	16,455	78,241	51,577
1886-7	94	2,261,561	17,455	91,804	53,405
Increase per cent between 1876-77 and 1886-87	100	105	91	1,058	243

Exports from United Kingdom have not increased to same extent.

77. On the other hand, it is pointed out that the exports of similar goods from the United Kingdom to silver-using countries in the East have not increased in anything like the same proportion; and it is suggested that some portion of the trade has been diverted from the United Kingdom to India.

The following table shows the exports of cotton yarn and piece goods from the United Kingdom to China, Hong Kong, and Japan from 1877 to 1887:—

QUANTITIES OF COTTON YARN and PIECE GOODS exported from the UNITED KINGDOM to CHINA, HONG KONG, and JAPAN.

Year.	Cotton Yarn.	Cotton Piece Goods.
	Thousands of Lbs.	Thousands of Yards.
1877	38,086	394,489
1878	36,467	382,330
1879	38,951	523,921
1880	46,426	509,099
1881	47,479	587,177
1882	34,870	454,948
1883	38,499	418,966
1884	38,856	439,937
1885	38,061	569,339
1886	26,924	490,451
1887	35,354	618,146

Due to causes independent of exchange.

Q. 8220-38.

78. In reply to these arguments it is contended that the growth of the Indian export trade in cotton yarns and goods is due to causes wholly independent of exchange difficulties; and was anticipated before those difficulties had existed in their present form.

The natural advantages of the country for the manufacture of certain kinds of cotton goods must, it is urged, have resulted sooner or later in a considerable development of her trade in this article.

When trading with neighbouring countries in the East, the Indian manufacturer has advantages, as compared with his European competitors, in the cost of transport of the raw material, the cost of labour, and the cost of transporting the finished article to market.

As an illustration of the advantages which accrue to an industry established in close proximity to the place where its raw material is produced and where the finished product is sold, the following figures are quoted, showing the recent growth of the cotton industry in the Southern States of the American Union:—

Q. 8220.

Year.	Southern States.		India.	
	Spindles.	Looms.	Spindles.	Looms.
1879-80	559,320	12,329	1,461,590	18,502
1886-87	1,213,346	27,963	2,421,290	18,536
Increase per cent.	117	127	65.6	37.3

In the following table the consumption of raw cotton in the Southern States, the Northern States, and in India is contrasted.

Cotton delivered to mills in—

	1880-1.	1886-7.	Increase per Cent.
The Southern States	Bales. 205,000	Bales. 398,000	94
India	379,000	726,000	91
The Northern States	1,710,000	1,727,000	1

79. The view above given of the relative advantages of England and India is, however, disputed; and estimates have been laid before us which tend to show that the Indian manufacturer, if unassisted by exchange considerations, would be unable to compete with the English manufacturer successfully in any market. Q. 8013-55.

The technical character of the questions involved in these calculations makes it very difficult to pronounce an opinion on the subject; but we understand that a committee of the Manchester Chamber of Commerce has been carefully considering the question, and that their conclusions, which on such a point will have a special value, will shortly be made public.

80. It is further pointed out that the alleged growth in the Indian trade with silver-using countries is true only with regard to the two items of cotton yarn and goods. Theory unsupported by statistics of the total trade of India;

If the total trade of India with gold-using and silver-using countries respectively is examined there does not appear to be any confirmation of the view that trade with European countries is subject to any special disadvantage.

The following table shows the value of Indian exports of merchandise (1) to gold-using countries, and (2) to silver-using countries since 1872-73:—

Years.	Exports to Gold-using Countries.	Exports to Silver-using Countries.
	Millions Rx.	Millions Rx.
1872-73	35,456,000	19,780,000
1873-74	35,786,000	19,175,000
1874-75	36,314,000	19,998,000
1875-76	37,983,000	20,062,000
1876-77	39,186,000	21,775,000
1877-78	42,363,000	22,823,000
1878-79	36,082,000	24,811,000
1879-80	40,972,000	26,201,000
1880-81	47,980,000	26,551,000
1881-82	56,395,000	25,507,000
1882-83	58,191,000	25,210,000
1883-84	63,274,000	24,847,000
1884-85	58,339,000	24,862,000
1885-86	58,539,000	25,289,000
1886-87	60,698,000	27,731,000

Comparing the average of the first and last quinquennial period in each case, it will be found that the exports to gold-using countries increased by 62 per cent., and those to silver-using countries by 27 per cent.

81. Nor again does the trade between the United Kingdom and India appear to have been much affected in this way. or of trade with the United Kingdom.

Our trade with India has increased both absolutely and relatively to that with other countries, as will be seen from the following figures placed before the Commission by Mr. Waterfield. First Report, App. VIII

Years.	Figures representing the Total Trade between India and United Kingdom.		Percentage of Trade with India to the whole Trade of the United Kingdom.
	Imports into India.	Exports from India.	
1874-75	100	100	8.5
1875-76	96	101	8.5
1876-77	110	105	8.5
1877-78	132	110	8.9
1878-79	98	101	8.5
1879-80	108	99	7.8
1880-81	132	111	8.9
1881-82	127	125	9.2
1882-83	135	127	9.8
1883-84	145	132	9.9
1884-85	147	121	9.7
1885-86	146	124	9.8
1886-87	154	125	10.5

Trade of United Kingdom with silver-using countries generally.

82. It is further pointed out that if the trade of the United Kingdom with the principal silver-using countries since 1873 is compared with the total trade with all countries, the increase will be found to be proportionately greater in the former case than in the latter, as will be seen from the following table :

Years.	Total Trade of the United Kingdom.	Trade with Principal Silver-using Countries, viz., India, China, Japan, Ceylon, Straits Settlements, Mauritius, Mexico, Central America.
	Millions £	Millions £
1873 - - -	682	98
1874 - - -	668	94
1875 - - -	656	98
1876 - - -	632	94
1877 - - -	647	102
Average - - -	657	96
1878 - - -	614	90
1879 - - -	612	85
1880 - - -	698	104
1881 - - -	694	104
1882 - - -	720	109
Average - - -	667	98
Compared with previous period - - -	+ 1.52 per cent.	+ 2.1 per cent.
1883 - - -	732	110
1884 - - -	686	104
1885 - - -	642	99
1886 - - -	619	98
1887 - - -	643	99
Average - - -	664	102
Compared with previous period - - -	- 0.45 per cent.	+ 4.08 per cent.

83. On the other hand, it is contended that the growth of trade between India and the gold-using countries has been stimulated by causes which have not affected in an equal degree the trade between India and the silver-using countries, such as the opening of the Suez Canal; and that the proportion of the total trade of England which is carried on with India might be expected to increase more rapidly than the trade with other countries which impose heavy import or export duties.

It is further pointed out that if, from the total Indian exports to silver-using countries, we exclude opium, which is subject to special conditions, it will be seen that the exports from India to silver-using countries have increased as rapidly as the exports to gold-using countries.

#### EXPORTS FROM INDIA TO SILVER-USING COUNTRIES (Opium excluded).

Official Year.	Rs.
1872-73 - - -	8,362,000
1873-74 - - -	7,844,000
1874-75 - - -	8,064,000
1875-76 - - -	8,922,000
1876-77 - - -	9,385,000
1877-78 - - -	10,451,000
1878-79 - - -	11,818,000
1879-80 - - -	11,877,000
1880-81 - - -	12,956,000
1881-82 - - -	13,075,000
1882-83 - - -	13,729,000
1883-84 - - -	13,553,000
1884-85 - - -	13,979,000
1885-86 - - -	14,554,000
1886-87 - - -	16,653,000

84. It is also stated that the uncertainties caused by fluctuations in exchange tend to discourage the investment of capital in silver-using countries, and that the latter consequently suffer through the want of proper development. Such countries are in themselves usually poor; and the capital required for their development must generally be attracted from gold-using countries; but the capitalists in the latter countries are deterred from investing in securities the interest on which is payable in silver, owing to the uncertainty as to the return which they will receive.

Discouragement to investment of capital in silver-using countries.  
Q. 2876-85;  
8164; 5847;  
5954.

The flow of capital is therefore diverted from its natural channels, and its most profitable employment; and the development of the regions where it is urgently required is impeded.

85. On the other hand, it is pointed out that the increasing competition of the Indian cotton mills, to which reference was made in § 76, would appear to show that capital was forthcoming when any good opening presented itself; that the uncertainties of exchange affect only the capital which bears a fixed rate of interest payable in silver; and that some compensation is afforded by the increased stimulus given to industrial enterprise and the consequent demand for capital in the silver-using countries themselves, owing to the fall in exchange.

It has also been stated in evidence that the English banks keep as small an amount of their capital as possible in India, and thereby diminish their power of giving accommodation.

Q. 5096.

86. There is further an increasing tendency in the case of silver-using countries to do business on a cash basis, owing to the inconvenience of having transactions open for long periods. This curtails credit and diminishes the trade of the countries concerned.

Curtailement of credit.  
Q. 5957.

## II. EFFECTS OF THE FALL IN THE GOLD PRICE OF SILVER.

87. Turning next to the effects of the fall in the gold price of silver, we find that one of the effects most prominently put forward is the general fall of gold prices alluded to in § 46.

Fall of gold prices.

This fall of gold prices is connected by two distinct lines of argument with the divergence in the relative value of the precious metals, and the monetary changes to which that divergence is attributed.

It is said that—

(a.) The fall in the gold price of silver has had a direct effect in lowering other gold prices.

(b.) The greater demand for gold and the increased work thrown upon it in the monetary systems of the world have caused a general contraction of the currency in gold-using countries, which has increased its purchasing power, or, in other words, caused a fall of prices.

Greater importance is attached by some to the operation of the former cause than of the latter.

The arguments urged in relation to it have already been alluded to in § 61 (c.); but it will be desirable to state them rather more fully at this point.

88. The ratio between the level of gold prices and the level of silver prices must, it is said, ultimately conform to the ratio between the value of gold and the value of silver, if any change in the ratio has occurred owing to causes affecting primarily one or both metals. In other words, gold and silver prices will vary about as much as the value of gold and silver.

Due directly to fall in gold value of silver.

If there is any change in the relative value of gold and silver, which is not itself merely a consequence of a prior disturbance in the general levels of gold and silver prices, that change will show itself sooner or later in the gold and silver prices of commodities respectively.

In the present instance there has been a fall in the gold price of silver, due to one or more of the causes set forth in the earlier part of this Report; the necessary adjustment in the levels of gold and silver prices will therefore follow, and will be effected either by increased exports of goods from silver-using countries to gold-using countries, causing a fall of gold prices, or by increased exports of silver to silver-using countries, causing a rise of silver prices.

It is also pointed out that to produce the fall of gold prices here indicated, it is not necessary that the goods should be actually exported from the silver-using countries. A depressing effect of the same kind would be caused by the mere knowledge of the

fact that a large supply of goods would come upon the market if any symptom of a rise in the gold price manifested itself.

89. One theory which was generally accepted, when attention was first directed to the divergence in the value of the two currencies, was that the adjustment would be carried out by the exportation of silver to the East until its value in the West and prices in the East were so affected as to make this operation no longer profitable.

Q. 4076-89;  
4111-18;  
4147;  
5422-30;  
8576-98.

It is now suggested that instead of a rise in silver prices, or a recovery in the gold price of silver, the fall in the value of silver has produced a corresponding fall in gold prices, the level of prices in the East remaining unaltered.

Silver prices are, it is said, less subject to alteration, through causes affecting the currency, than gold prices. The immense volume of silver in eastern countries, the conservative habits of the people, the absence of banking facilities and other commercial conveniences, all contribute to this result.

The adjustment, therefore, takes the line of least resistance and results in a fall of gold prices in western markets in conformity with the alteration in the gold price of silver.

In India the cost of labour, the land revenue, and other similar charges have remained the same. The Indian producer therefore, so long as he can get the same silver price for his produce as before, remains in as favourable a position, and he is forced by competition to accept the same silver price as before the gold price of silver fell; but the same quantity of silver can, after the fall, be obtained for a less quantity of gold. The maintenance of the silver price is therefore equivalent to a lowering of the gold price. Consequently a fall is established in the gold price of all commodities exported from silver-using countries to gold-using countries.

On the other hand, as the Indian producer only obtains the same silver price as before, or a lower gold price, he cannot give more silver for European produce than before. The European producer must therefore, in order to find a market for his produce, accept the same silver price or a lower gold price. Hence arises a fall in the price of all the produce exported from gold-using to silver-using countries; and the altered relation of silver to gold thus affects directly the gold prices of all articles comprised in the trade between those countries.

90. It also affects indirectly the gold prices of articles exchanged between, or consumed in, the gold-using countries themselves. So far as these articles are the same, or serve the same purpose, as those which are directly affected, their prices are necessarily forced down by competition; the remainder, or a considerable proportion of them, are affected by the diminution in the cost of production generally, arising from the fall in the prices of the other articles, many of which are staple commodities or necessaries of life having a direct bearing upon the cost of production.

91. It is also argued generally that the relative prices of commodities must be adjusted so as to maintain (other things remaining the same) the same relative values, and thus that an established fall, through varying causes, of the prices of any important groups of commodities will be transmitted through other groups by industrial competition. A fall, for example, in the price of agricultural produce will (methods of production, &c. remaining the same) give a less money income to landlords, farmers, labourers, and all depending on land, and they will not be able to pay so much for other things, whilst at the same time labour and capital will tend to flow into other industries so long as prices in those industries remain relatively high, and thus in both ways those prices will tend to fall.

It would have been impossible for a fall in proportion to the gold price of silver to have been established in the case of all the great staples of trade between gold and silver using countries without indirectly affecting other commodities.

92. In reply to these arguments it is contended—

(a.) That the level of prices in gold-using countries can only be affected by changes in the relation between the volume of the currency in those countries and the work which it has to do; and not by a change in the value of the metal forming the standard of value elsewhere.

(b.) That a sufficient explanation of the fall of gold prices can be deduced from causes affecting directly the volume of the currency in gold-using countries, and the nature and extent of the business transactions in which it is used.

(c.) That the assumption of greater stability in Indian than in European prices is unwarranted. Such statistics as are available show that there has been as much

Reply to  
above  
arguments.  
Q. 10,226.

variation in Indian prices as in European prices, and that the fluctuations in the prices of the same article at the same places in different years, or at different places in the same years, are far greater than any which can be observed in Europe.

It is therefore urged that there is no foundation in such statistics for the theory that gold prices tend to accommodate themselves to silver prices more than silver prices accommodate themselves to gold prices.

(d.) That the gold price of silver is constrained to move in accordance with the ratio between the level of gold prices and the level of silver prices, and that an increased supply of silver in gold-using countries would result in a flow of silver to silver-using countries until the equilibrium had been restored.

(e.) That again there has been no decrease in the export of goods from gold-using to silver-using countries such as would be caused, other things being equal, by such a divergence, but rather the reverse.

(f.) That the volume of the currency and the methods of using it remaining unchanged, a fall in the prices of goods that enter into Oriental trade would be more likely to raise than to lower the prices of goods that are not connected with it, because it would leave more money free to do business in them. For instance, during the period in which wheat was the chief element in the expenditure of the working classes, it was notorious that a fall in the price of bread led to an increased money demand for other commodities and a rise in their price.

(g.) That so far as statistics of trade go, they are inconsistent with the arguments which trace the fall in gold prices to the fall in the gold price of silver, and to the effect of silver prices on gold prices. The immediate effect of any such change would be to reduce the gold prices of articles exported to silver-using countries, and consequently the exports to those countries, and to stimulate the exports to gold-using countries. But no such effect can be traced in the trade returns. On the contrary the exports from the United Kingdom to silver-using countries have increased more rapidly than the exports to other countries.

93. The allegation of a general fall of gold prices has already been referred to in § 46, where it was adduced as corroborative evidence in support of the view that gold had become scarcer; but it is necessary to recur to the subject at this point in order to examine the bearing which the general fall of prices, assuming it to be proved, may have had upon the several interests which we are directed to consider.

Effects of  
fall of gold  
prices.

It must, however, be observed that this question only enters within the scope of our inquiry if, and so far as, the fall of prices is due to causes directly connected with the precious metals.

In considering, therefore, the effects of a fall in the general level of prices, we shall, for the purpose of the present argument, assume the soundness of the reasons connecting it with circumstances affecting the precious metals and their relation to one another, which were adduced in the earlier portion of our Report.

94. Those who lay stress on the evil effects arising from a fall of prices urge—

(a.) That an appreciating standard of value cannot properly perform its most important functions.

The metal which serves as the standard has to act as; (i.) a medium of exchange; (ii.) a measure of value; (iii.) a means of storing value; and (iv.) a standard for deferred payments or contracts extending over a long period.

Disadvan-  
tages arising  
from a fall of  
prices.  
Q. 3092-5;  
4028-50;  
5553-7.

In the two first of these cases variations are of less importance. The ordinary transactions of commerce are seldom open for more than a few months at a time; allowance can therefore be easily made for a change in the value of the currency in which these transactions are expressed, and such a change can seldom be sufficiently marked or sufficiently sudden to cause any substantial loss or gain to either party. The second use of the standard is important, mainly on account of its connexion with statistical and other similar inquiries. But in the third, and to a still greater extent in the fourth, case, the inconvenience of such changes in the standard of value is especially great, and material inconvenience and hardship is caused by any alteration.

(b.) That in respect of these two cases an appreciating standard causes more inconvenience and hardship than a depreciating standard, because it imposes a greater burden upon the debtor class; and it is asserted that borrowers are those on whose enterprise the industrial interests of the country principally depend.

(c.) That an appreciation of the standard creates uncertainty as to the profit to be made from commercial transactions, checks enterprise, and therefore impairs the productive capacity of the world.



The depression caused by falling prices is due partly to material and partly to sentimental causes.

Falling prices will, if other things remain the same, involve a reduction of profits and a consequent indisposition to continue producing; but this reduction is to a certain extent only apparent. In so far as the profits, though smaller, have the same purchasing power as before, the person who receives them is, no doubt, in the same relative position as before; but he is more impressed with the decrease in their nominal amount than with the maintenance of their purchasing power. The depressing effect thus produced by falling prices tends to curtail business and discourage enterprise. Further, so far as his production is carried on with borrowed capital, for which he has to pay a fixed rate of interest, or is subject to any permanent charge from which he cannot at once free himself, he sustains a real loss, because his outgoings remain nominally the same, but are really more onerous, while his returns are diminished owing to the fall in the selling price of his produce.

Moreover, it is found that wages, which must necessarily form a large proportion of the total cost of production, fall less rapidly than prices.

For all these reasons the necessary adjustment in the cost of production, which, to maintain real profits at their normal rate, should be going on *pari passu* with the fall of prices, is always deferred, and is frequently deferred to a point at which production ceases to be remunerative.

95. In reply to these arguments it is said—

(a.) That, if the question lies between rising and falling prices, the latter are the lesser evil, since they tend to a more equal distribution of wealth and benefit the consumer as such, and more particularly the wage-earning classes, whose real wages, on the hypothesis above mentioned, are increased.

(b.) That when prices are falling, trade is carried on with greater circumspection and maintained in closer correspondence with the real wants of the community than in times of great inflation and excitement. In illustration of this it is pointed out that the great commercial crises and disturbances of trade rarely occur in times of so-called depression, but are usually the result of the great stimulus to production and speculation caused by a general rise of prices.

(c.) That times of falling prices are usually more fertile in inventions and other means of diminishing the cost of production, or economising the use of capital; and that the stimulus to improvement so created results in a material benefit to the community, thus affording compensation for any diminution in production caused by loss of profits.

(d.) That the transfer of value from one class of the community to another cannot be a national loss; and that, as regards the country at large, a clear gain can be shown, owing to the large investments of British capital made in foreign countries at a time when prices were high. With every fall of prices the real return on this capital increases and the country gains.

(e.) That a fall in profits is to some extent compensated by a fall in the rate of interest on borrowed capital required for production; and that this compensation extends to all except the few producers who are unable to take immediate advantage of this element in their favour.

96. To the foregoing arguments the following rejoinder is made:—

(a.) That as regards labour, the apparent advantage of higher real wages is (i.) only temporary, as it will disappear whenever the final adjustment is made, and will be converted into a loss whenever the movement of prices turns in the opposite direction; (ii.) more than neutralised by the uncertainty and irregularity of employment which is inseparable from depression of trade, and which frequently results in an actual and serious loss of real wages.

(b.) That a fall in prices benefits the capitalists who have lent money for fixed periods at a fixed rate of interest, and in such cases a smaller share of the product of labour is left to be divided between the producer and the wage-earning classes. It is difficult to suppose that the latter can for any length of time receive larger real wages out of the smaller share of the gross product of labour which is divisible between themselves and the producer.

(c.) That the methods of economising labour which, as stated above, are more readily devised in times of depression, cannot but produce temporary inconvenience and hardship among the labouring classes owing to the difficulty which they find in accommodating themselves to the altered conditions of industry.

Compensating advantages of a fall in prices.  
Q. 6736-7;  
7718; 9108.

Rejoinder to the above arguments.

(d.) That if times of falling prices are more fertile in inventions and other means of diminishing the cost of production, this can only arise from the hardship caused by the fall in prices compelling producers to put forth greater exertions, and does not differ in nature from what would be produced by the imposition of any additional burden, such as increased taxation, on the same class.

(e.) That the friction in the labour market produced by constant attempts to lower wages in correspondence with a fall in prices engenders much discontent and social disturbance.

(f.) That the labouring classes are rarely able to obtain the full benefit of a fall in prices, such as would compensate them for the disadvantages mentioned above, much of it being intercepted by other classes before it reaches them.

(g.) That if a check to production from a fall in prices be admitted, the actual wealth of the world must necessarily be diminished, and that no redistribution of what remains can alter this fact.

(h.) That an active trade with a high rate of interest, even if accompanied by occasional crises, is preferable to the depression which results from falling prices.

(k.) That a loss caused by the transfer of value from one class of the community to another may be a national loss, and that the alleged gain to the country at large from investments of capital in foreign countries at a time when prices were high has been greatly exaggerated. It has sometimes been assumed that this gain is realised on all the payments made by foreign nations to this country which are not made directly in exchange for commodities; but this is not the case. For example, there is no such gain on the payments to this country on account of freights earned by British ships, nor on account of investments of capital abroad in industrial enterprise; payments on account of such investments may even be reduced by the fall in prices affecting profits. The only gain is in connexion with loans made in gold at fixed rates of interest, and the total gain from this class of investments should be reduced by the loss on similar investments made in silver or other currency which has depreciated in comparison with gold. A large portion of this gain is made at the expense of British Colonies and dependencies such as India, and does not accrue to the country at large, but to a very limited class.

97. In § 88 we have dealt with one effect of the fall in the gold value of silver upon the international trade between gold and silver using countries, and with the process by which the adjustment between the levels of prices in those countries respectively is carried out.

Disturbance in international trade produced by a fall in exchange.

It would appear to be admitted by almost all witnesses, that when the adjustment has been completely carried out, the conditions of international trade will be precisely the same as before the divergence between the values of the two currencies occurred.

When the exchange between the two countries has reached a stable point, and the level of prices in each has accommodated itself to the altered state of things, no further disturbance of prices will occur, so long as the equilibrium of the exchange is preserved.

98. In the meanwhile, however, trade, it is said by some, may be diverted to a considerable extent from its natural channels; and the process of adjustment above described may extend over a long period, and must necessarily continue until the par of exchange between the two currencies becomes comparatively stable.

In the present instance, the instability has continued for upwards of 14 years, and there is no sign of the permanent restoration of equilibrium.

The complete adjustment of prices to the altered value of the currency has therefore been continually deferred, and this has, it is said, resulted in a stimulus to exportation from silver-using countries, and a corresponding check to exportation from gold-using countries.

99. Reasons have already been given in support of the view that, as it is easier for prices to fall than to rise, the necessary adjustment would more probably be carried out by a fall of gold prices than a rise of silver prices.

Alleged bounty on export from silver-using countries.  
Q. 2637;  
2885-99;  
3069-78;  
5621-6.

If prices in silver-using countries have not risen, the cost of production and all other charges remain the same, and the producer can make the same rate of profit if he can get the same selling price in silver as before. The fact that the silver selling price is equivalent to a lower gold price does not affect him.

The producer in the gold-using country, on the other hand, who exports produce to the silver-using country, receives the same amount of silver as before, but reduced in value when converted into gold. Unless, therefore, the cost of producing the

commodity is reduced to the same extent as the 'gold value of the silver which he takes in exchange, he will sustain a real loss.

But it is urged that the cost of production does not accommodate itself readily, much less simultaneously, to the fall in the selling price. Fixed charges of all kinds and the wages of labour will fall but slowly; and until the adjustment is complete the loss will continue.

In the present case, it is pointed out that the process of adjustment has been going on since the fall in the value of silver first manifested itself, but that as the fall has been in the main continuous and shows no symptom of having reached its limit, the process cannot have been completed, and the loss is therefore for the time being irremediable.

The advantage thus gained by the producer in the silver-using country extends, it is said, not only to those who produce articles exported to gold-using countries, but to those who produce articles for the home market in competition with producers in gold-using countries; and similarly the disadvantage attaching to production in gold-using countries extends not only to those engaged in the export trade to silver-using countries, but to the producers of all commodities which compete with the produce of silver-using countries.

The illustration most commonly brought forward in support of these arguments is the export of wheat from India, which, it is said, competes successfully with that grown in England or imported from America and other countries.

As silver prices remain stable, the apparent cost of producing wheat in India is not greater than before the fall in silver. No larger number of rupees are paid for rent, taxes, wages, or carriage; no smaller number of rupees are received by the producer in return; and that return will enable him to satisfy all his wants to the same extent as before.

If, when the gold price of wheat is 40s. a quarter, the rupee is worth 2s. in gold, the Indian producer will receive 20 rupees for a quarter of wheat. If the gold price of wheat then falls 25 per cent. to 30s. a quarter, and the gold value of the rupee falls 25 per cent. to 1s. 6d., the Indian producer will still receive 20 rupees for a quarter of wheat, and will pay the same amount as before in rent and wages.

The producer in the gold-using country on the other hand will receive 10s. less on each quarter of wheat, owing to its price having fallen from 40s. to 30s.; but the cost of production has not fallen to the same extent, though rent and wages have fallen slightly; taxation and many other compulsory charges have not fallen at all, and their burden is therefore heavier.

Where the producer both owns and cultivates the land himself, and where consequently neither rent nor wages enter into the calculation, the disadvantage to the English producer is said to be even more apparent.

The cost of production in either case remains practically the same; but the difference in the return is very great.

The Indian producer will still receive, as has been shown, 20 rupees for his quarter of wheat; and these rupees will buy as much as they bought before, because prices in India have remained stationary.

The English producer receives only 30s. instead of 2l., and it cannot be contended that the purchasing power of 30s. is equal to that of the 2l. which he formerly received, except on the hypothesis that the prices of all commodities here have fallen in the same proportion, which is not alleged.

No adjustment in regard to rent or wages can in this case restore the balance, because neither rent nor wages are paid; and the difference between the purchasing power of the 30s. which he receives at present, and the 2l. which he formerly received, is the precise measure of the loss which the English grower suffers as compared with his Indian competitor.

If therefore the English and the Indian producers were, before the fall in prices, competing on equal terms, the result of the fall will be to leave the Indian producer where he was, and to reduce the profits of the English producer.

Increased  
export of  
wheat from  
India.

100. These circumstances, it is said, account, to a large extent, for the increased export of wheat from India, which appears to have synchronized with the fall in the value of silver, for the serious decline in the price of wheat, and the corresponding depression in agriculture in this country.

India already exports a quantity which is quite sufficient to materially influence the market price, and the effects of depression are shown, it is urged, in (a) the diminished profits of landlord and farmer; (b) the extent of land which has already

been thrown out of cultivation, and the consequent reduction in the annual produce of material wealth in the country; and (c) the injury sustained by the agricultural labourer, owing, in some cases, to the total loss of his employment, and in others to a considerable reduction in wages.

The following table gives the value and quantity of wheat exported from India during the last 10 years, with the average rate of exchange.

Years ended 31 March.	Quantity.	Value.	Average rate of Exchange.	
	Cwts.	Rx.	s.	d.
1877	5,587,000	1,958,000	1	8·5
1878	6,373,000	2,874,000	1	8·79
1879	1,057,000	520,000	1	7·79
1880	2,202,000	1,124,000	1	7·96
1881	7,444,000	3,278,000	1	7·95
1882	19,901,000	8,870,000	1	7·89
1883	14,194,000	6,089,000	1	7·52
1884	21,001,000	8,896,000	1	7·53
1885	15,851,000	6,316,000	1	7·81
1886	21,069,000	8,005,000	1	6·25
1887	22,264,000	8,626,000	1	5·44
1888	13,538,000	5,562,000	1	4·89

101. Another illustration may, it is said, be found in the growth of the Indian cotton trade, both for home consumption and for export to the silver-using countries of the East. The stimulus to the Indian and the disadvantage to the English manufacturer are of the same nature as has been indicated above with regard to wheat. If the selling price in India of Manchester goods has undergone no alteration, the Indian manufacturer is in precisely the same position both as to cost of production and profits as before; but, as in the case of the Manchester manufacturer the gold price of goods has fallen, and he has not been able to effect a similar diminution in the cost of production, he is in a worse position.

Growth of  
Indian  
cotton trade.

The figures showing the growth of the Indian cotton trade are given in § 76, and need not therefore be reproduced here.

102. On the other hand it is contended—

(a.) That international trade is in substance only barter, an exchange of commodities for commodities, and that the conditions of such a trade cannot be affected, except to a very slight extent, by alterations in the value of the metals in which transactions are expressed. If those metals fall in value, more of them will be required in exchange for a given quantity of commodities; if they rise in value, less will be required. But the real value of the commodities, relatively to other commodities, will remain the same, or will be governed by independent considerations.

Replies  
to above  
arguments.  
Q. 9735-51  
10,226.

(b.) That consequently the levels of prices in two countries having currencies of different values must adjust themselves to the relative value of the two metals, and that, at any rate, no appreciable difference can be permanently maintained.

(c.) That until a relatively uniform level is reached in the two countries, there may be a certain advantage in trade in one direction or another, but that this is much less than is commonly supposed, and that its effects very soon disappear.

(d.) That if the disturbance of the trade between England and India had been of the kind suggested, it would have resulted in a falling off of exports of goods to the latter country, and an increased export of silver in their place. But there is no evidence of either of these movements having taken place.

(e.) That the arguments used above with regard to the effect of a change in the value of two metallic currencies are equally applicable to the case of a metallic currency and an inconvertible paper currency, in which the changes are frequently greater; and that consequently, if the reasoning be sound, the export trade of a country would be benefited by excessive issues of such paper.

(f.) That any permanent bounty arising from a fall in exchange is impossible. As soon as prices have adjusted themselves to the altered condition of the currencies, any gain which might appear to be made in one direction will be balanced by a loss in another.

(g.) That though the fall of gold prices does increase the burden of fixed charges on the English capitalist producer, and makes it difficult for him to secure the same rate

of profit, yet this effect is independent of his having to meet the competition of producers in silver-using countries, and would exist equally if England had no foreign trade.

Q. 10,080.

(h.) That after taking account of the slight advantage obtained by the Indian producer owing to (i.) the fall in exchange having been almost continuous, and (ii.) the fact that the same nominal taxation does not in his case impose any heavier burden, and of the more serious disadvantage to which the English producer is put by his inability to reduce the cost of production in the same proportion as the selling price of his produce, the increase in the export of wheat from India can be sufficiently accounted for by the diminution in the cost of sea and land transport, the large area of production which has been made available by the extension of railways, and recent improvements in the methods of adapting the wheat for the English market.

The growth of the Indian cotton trade has been already dealt with in § 78.

(k.) That if, as alleged, the Indian producer, while still receiving 20 rupees for his wheat, can purchase as much of other commodities as before, the price of such of those commodities as are capable of export to this country must have fallen in nearly the same proportion as the gold price of silver.

(l.) That the English producer, or wage-earner, is only injured by the fall in the price of his produce, so far as other commodities have not fallen to the same extent, and that so far as this general fall has taken place, he is in the same position as the Indian producer.

(m.) That if the fall in the gold value of silver is due to a cause affecting gold, then it is to that cause and not to the divergence between gold and silver that the fall in gold prices is due.

But if the fall in the gold value of silver is due to causes affecting silver, then the effect of the fall must have been to keep up silver prices. Consequently if no such fall had taken place, the value of silver in silver-using countries would have been greater, and silver prices would have been lower than they are; and the gold prices of articles of trade with silver-using countries would have been affected by silver prices just as much as they have been, with the difference, that the change would have been exhibited in a fall of silver prices instead of in a fall in exchange.

(n.) That the statistics of the export of wheat from India and the export of cotton goods from England do not support the theory that the volume of either trade is materially affected by the fall in the gold price of silver.

The export of cotton goods to India has steadily increased during the period in which the exchange has been falling; nor does it appear to have met with any check in the years when the fall in exchange was most marked.

The increased export of wheat from India during the same period may appear to give some support to the theory; but the variations from year to year are so great, and correspond so little with the course of the exchange, that other causes must have operated to a much greater extent; and the variations obviously arise largely from favourable or unfavourable seasons.

(o.) That Indian wheat forms but a small proportion of the total supply in the gold-using markets of the world, and is not sufficient in quantity to control the price in those markets.

### III. EFFECT UPON INDIA.

Special position of India.

103. We now pass from considerations which are of general application to the commercial relations of all countries having different standards to the special case of India. The exceptional position of that country causes it to be affected in a special manner which we propose to treat separately.

While the metal forming its standard of value is silver, its political and, for the most part, its commercial relations are with a country having a gold standard.

Whilst its taxes are collected in silver, a substantial portion of its outgoings, including the payments which have to be made in this country, are necessarily disbursed in gold.

Extent of its gold payments.

104. Of the above circumstances, the most important is the fact that the Government of India has every year to convert a large portion of its receipts from silver into gold, in order to meet its liabilities in England.

In practice this operation is effected by selling in London for gold bills payable in India in rupees. As these gold payments are, for the most part, fixed in amount, any fall in the value of silver necessarily compels the Government to sell a larger quantity of



bills, or, in other words, to pay a larger quantity of silver. It is this which constitutes its chief difficulty, for (a) it is always uncertain what additional number of rupees will be required in any one year, and all calculations of revenue and expenditure are therefore open to serious modifications between the date when they are made and the date when they are realised; (b) it is extremely difficult, on political grounds, to increase the existing taxation; and (c) the increased amount of silver now required to discharge its gold liabilities imposes a burden upon the Indian taxpayer in respect of a considerable proportion of those payments.

105. The bulk of the gold payments which the Government of India is under obligation to make fall under one or other of the following heads: (1) interest on debt, (2) interest on the stock of the guaranteed railway companies, (3) expenses on account of the British forces maintained in India, (4) pensions and non-effective allowances payable in England, (5) the cost of the Home administration, and (6) stores purchased in England for use or consumption in India. In order to show the effect of the fall in exchange upon the total amount of these remittances Mr. Waterfield has divided them into two classes according to the distribution laid down in our order of reference, namely (i.) payments under old or fixed contracts, and (ii.) payments under new or current contracts.

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(A.)

106. As regards old or fixed contracts the actual sterling (net) payments in 1874-75, the last year in which the average rate of exchange was above 1s. 10d., were 11,704,953l., and the number of rupees required to discharge this liability was 12,67,88,727. In 1885-86 the actual sterling (net) payments were 11,321,979l., and the number of rupees required was 14,88,58,141. At the rate of exchange current in 1874-75, the same amount in gold could have been provided by an expenditure of 12,26,40,330 rupees, and the additional number of rupees required owing to the fall in exchange was consequently 2,62,17,811.

Effect on  
gold pay-  
ments by  
the fall in  
exchange.  
Q. 1640-4;  
1737.

Under new or current contracts the sterling (net) payments in 1874-75 were 3,339,968l., equivalent at the then rate of exchange to 3,61,78,726 rupees. Owing to large payments received from railway companies in 1885-86, the expenditure under this head in the latter year was less than the receipts by a sum of 311,996l. Apart from these receipts the actual payments were 4,331,074l., which would have required 5,69,43,722 rupees; at the rate of exchange of 1874-75 the same payment would have been liquidated for 4,69,14,443 rupees, showing an increased charge owing to the fall in exchange of 1,00,29,279 rupees.

Owing, however, to the receipts above mentioned the actual sterling payments under the two heads together were only 11,009,983l., and the number of rupees required was 14,47,56,107.

To provide the same amount of gold in 1874-75 would have required 11,92,60,770 rupees, showing a difference due to the fall in the exchange of 2,54,95,337 rupees.

The effect on the finances of the Government of India will perhaps be seen more clearly by considering that a fall in the value of the rupee from 1s. 6d. to 1s. 5d. would in the year 1886-87 have made it necessary for the Government of India to find an additional sum of at least 11,000,000 of rupees. A fall from 1s. 5d. to 1s. 4d. would have had a greater effect, and a fall from 1s. 7d. to 1s. 6d. a somewhat less effect.

107. It is, however, pointed out—

(a.) That the real burden of the increased charge shown to have been imposed on the Indian Exchequer by the fall in exchange is limited to that portion of it which represents payments contracted to be made before the fall in exchange commenced, or when the fall was not so great as it has since become.

Reply to  
above  
allegations.

(b.) That consequently no loss can properly be said to arise from the bulk of the payments which fall under the head of "new or current contracts." If a larger number of rupees is required to represent a given quantity of gold, that quantity of gold will purchase a larger quantity of commodities than before. In the case of many commodities required by the Government of India the gold price has fallen even more than the gold price of silver; and in such cases the same number of rupees will purchase a larger quantity of commodities than before.

(c.) That even in the matter of payments under "old or fixed contracts," the position of India is no worse than that of any other country which has contracted a permanent gold debt. The fall of gold prices, if due to a scarcity of gold, has increased the burden of all contracts to pay a fixed quantity of gold; and it is immaterial whether the gold has to be purchased by a larger quantity of commodities or a larger quantity of silver.

(d.) That in the case of India there can be little doubt that this debt, the burden of which is complained of, has been incurred for useful purposes, and has increased the productive capacity and the wealth of the country, thus making it as well able to bear the burden of taxation as it was before the fall in the value of silver took place.

Difficulties arising from uncertainty as to exchange.

Q. 1646-7.

108. The difficulties of the Government of India consist, however, not only in the additional number of rupees which it is compelled to find from year to year in order to discharge its gold liabilities, but in the uncertainty caused by the fluctuations in the rate of exchange, which makes it impossible to forecast with any accuracy its future expenditure.

The following table shows the rate of exchange estimated in the Budget, the rate actually realised, and the additional expenditure caused, or the saving effected by the divergence, since 1874-75.

Year.	Rate of Exchange estimated in the Budget.	Rate actually realised.	Difference.	
			Excess.	Saving.
	<i>s. d.</i>	<i>s. d.</i>	Rupees.	Rupees.
1874-75	1 10·375	1 10·156	15,91,764	—
1875-76	1 9·875	1 9·626	19,57,917	—
1876-77	1 8·5	1 8·508	—	76,736
1877-78	1 9·23	1 8·791	38,43,050	—
1878-79	1 8·4	1 7·794	56,87,129	—
1879-80	1 7	1 7·961	—	84,40,737
1880-81	1 8	1 7·956	4,24,722	—
1881-82	1 8	1 7·895	10,17,482	—
1882-83	1 8	1 7·525	37,46,890	—
1883-84	1 7·5	1 7·536	—	3,62,902
1884-85	1 7·5	1 7·308	18,97,307	—
1885-86	1 7	1 6·254	56,82,638	—
1886-87	1 6	1 5·441	65,17,721	—
1887-88	1 5½	1 4·898	71,90,097	—

It will be observed that during the above period the actual rate exceeded the estimated rate in only three years, and that on the whole the effect of the fluctuations was to cause a considerable increase in expenditure over what had been anticipated when the financial arrangements of the year were made.

Difficulty of obtaining capital for development of the country.  
Q. 1653;  
1771.

109. Reference has been made in a previous paragraph to the difficulty of attracting capital to silver-using countries, owing to the reluctance of capitalists to invest in securities, the return on which they are unable to calculate with certainty.

This consideration applies with special force to the case of the Government of India, with whom it necessarily lies to take the initiative in any scheme of public works for the better development of the country.

The form of investment which native capital has adopted from time immemorial is hoarding, and though there may be some tendency to invest in the securities offered by the Government, it has made but slow progress, and since the divergence between the value of gold and silver first manifested itself the inducement to hoard the more valuable metal has rather increased.

In former times, when the relative value of the two metals was more stable, the Government were able to raise loans, both capital and interest being payable in silver; and the terms on which they were raised were about the same in Calcutta and London. The price of 4 per cent. rupee paper in 1873 varied between 101½ and 105½ in Calcutta, while the price of the 4 per cent. sterling stock in London was from 101 to 106. But in 1887 the former security was from 95½ to 99½, while the 3½ per cent. sterling stock in London varied between 100½ and 104, or but very little below the 4 per cent. stock 14 years before.

Uncertainty of all financial arrangements in India.

110. Of the three sources of embarrassment to the Government which we have indicated above, perhaps the most serious is the uncertainty which must necessarily attend all the calculations on which their financial arrangements for the future are based.

Apart from any question of exchange, both the revenue and expenditure in India are from various causes, it is said, more subject to fluctuations and uncertainty than is the case with European States generally.

But in addition to these contingencies an unexpected fall in the value of silver may involve a loss of revenue which could not have been foreseen when the financial arrangements of the year were made, and this difficulty would be aggravated in the case of arrangements extending over many years. The extent of the inconvenience thus caused may be inferred from the figures given in § 108.

Even if the precise limits of the fluctuations could be foretold with greater accuracy, neither revenue nor expenditure could be made to accommodate itself to variations of such magnitude. For it would be difficult to impose and remit taxation from year to year without causing great discontent among a population who are unaccustomed to changes in their fiscal arrangements, and to whom it would be difficult to explain the circumstances which had rendered the changes necessary. Q. 1599.

111. Grave objections are also entertained to progressive increases of taxation to meet either unexpected fluctuations or a continued fall in exchange. A large portion of the revenue generally is inelastic and not easily increased. The land revenue, from which source is derived nearly one-half of the net receipts of the Government, has been fixed on a silver basis, in some cases in perpetuity and in others for long terms of years. Objections to increasing taxation. Q. 1745-8.

The salt tax has been increased since the commencement of our inquiry, and we are told that it would be difficult to raise much additional revenue from this source. The opium receipts are of a very precarious nature, and have shown a tendency to fall off in recent years; and it is stated that it would be difficult to find any available branch of the Indian revenue which could be relied upon to bring any large addition to the Exchequer.

112. Another interest to which our attention has been directed is that of the European employés of the Government of India. They receive salaries paid in silver, and calculated with some regard to the cost of living in India, and to the necessity imposed upon them of remitting home a certain proportion of their incomes. So far as their incomes are spent in India or are devoted to the purchase of commodities, the gold price of which has fallen as much as that of silver, they do not sustain any loss. But on a large proportion of their remittances to Europe they derive no benefit from the fall of gold prices, as the fall has affected wholesale more than retail prices, and has not affected at all many of the prices in which they are interested. Case of European employés of the Government. Q. 1661-5; 1843-52.

In reply to this it is pointed out that the loss sustained by the servants of the Government in connexion with their remittances is a matter for discussion and settlement between themselves and their employers. If the salaries of the Indian officials do not represent as much real remuneration as before, the Government will ultimately be compelled, by the same forces which settle the market value of all other commodities, to increase their salaries.

113. The above allegations relate to matters affecting only the Government of India as a Government, and its employés. The country in its commercial intercourse with other countries is subject to the same disadvantages and disturbing influences which affect the international trade of silver-using countries generally with gold-using countries, and which have been described above. Effect upon the country as a whole. Q. 1842; 1854-60.

On the other hand it is urged—

(a.) That with the exception of the European employés of the Government, no class in India can be shown to have suffered by the fall in exchange; that, on the contrary, those interested in exports would appear to have gained some advantage by the stimulus given to their several industries, and those interested in imports have secured the benefit of the fall of gold prices which has taken place in Europe.

(b.) That consequently the people of India are as well, if not better, able to bear the increased burden of taxation rendered necessary by the fall in the value of their currency.

(c.) That if and so far as silver has fallen, silver prices are higher than they would have been without that fall; and in that case the fall in silver, if it has added to the sum which the Indian Government have to raise by taxation in order to pay their gold debt, has lightened the burden which, but for that fall, would have rested on the Indian taxpayers.

## REMEDIES PROPOSED FOR EVILS ABOVE DESCRIBED.

Remedies which have been suggested for the alleged evils.

114. We have now enumerated the principal allegations which have been made with regard to the evils or inconveniences resulting from the disturbance in the relations between the two precious metals.

115. Reserving until a later portion of our Report the expression of our own opinion as to the magnitude and importance of these evils, we will next proceed to state the remedies which have been proposed to meet them, and we shall for our present purpose assume that they have been proved to be of a sufficiently serious nature to require a remedy.

A reference to the preceding paragraphs of our Report will show that the element of disturbance on which the principal stress is laid in connexion with all the evils which have been alleged, is the want of fixity in the relation between the two precious metals.

The remedy which has been put before us most prominently and as most likely to remedy the evils complained of to the fullest extent possible, is that known as bimetallism.

## BIMETALLISM.

Nature of a bimetallic system of currency.

116. A bimetallic system of currency, to be completely effective, must, in the view of those who advocate it, include two essential features :

(a.) An open mint ready to coin any quantity of either gold or silver which may be brought to it.

Q. 3461.

(b.) The right on the part of a debtor to discharge his liabilities, at his option, in either of the two metals at a ratio fixed by law.

It is urged that, though such a system might under certain conditions be established in one or more countries independently, the maximum amount of advantage would not be derived from it, unless it were adopted by international agreement between the principal commercial countries of the world.

117. We propose to consider the subject under the following heads :—

I. The effects which would be produced by such an arrangement if carried out.

II. The possibility of carrying it out as proposed.

III. The consequences which will result if no steps are taken to restore stability in the relative value of the two metals.

## I.

Its effects in maintaining a permanent relation between the two metals.

118. It is asserted that if a sufficient number of the principal commercial nations of the world were to agree upon an arrangement such as that described above, a stable relation of value between the two metals would be secured, or that at any rate the variations in that relation would be confined within very narrow limits.

If the possessor of any quantity of silver could, by taking it to the mints, have it converted into coin available as legal tender at a fixed ratio with gold, he would never part with it except at a gold price closely approximating to the value represented by that ratio. The variations in the gold price of silver would therefore be scarcely appreciable.

Objection that the operation of the Gresham law would prevent any permanent relation.

119. On the other hand it is contended that inasmuch as the supply of each metal, the demand for non-monetary purposes, and the cost of production, vary from time to time, and the relative value of the two metals must depend in the main upon the action and reaction of these factors, no conventional arrangement such as that suggested could prevent their operation. Experience proves that if two metals or two kinds of money are available for the discharge of debt, the metal which is relatively cheaper will be preferred, and the metal which is relatively dearer will disappear from circulation.

If, for example, in a particular country the relative value at which gold and silver exchanged in the open market was as 20 to 1, and the legal ratio were fixed at 15½ to 1, no gold would be taken to the mints. Those who possessed gold would sell it for silver at the market rate and bring the silver to the mints for coinage; all the gold in the form of coin would be melted down for use in other ways, and the currency of the country would consist of silver alone.

If the same legal ratio were fixed in several important commercial countries, the effect would be the same, though less in degree; and the effect could only cease if all the commercial countries of the world adopted complete bimetallism.

120. To this it is replied that, on the assumption of an international agreement between the principal commercial countries, the effects of a bimetallic system so established would be universal, and there could not be any appreciable difference between the relative value of the metals in the open market and their legal ratio. On this hypothesis the demand for gold for purposes of currency from the other countries of the world could not be considerable; and consequently the only purpose for which the gold could be required in considerable quantities would be for industrial use or for hoarding; and the demand for these purposes when compared with the annual production and the existing stock of the metal would not be sufficient to cause it to disappear from circulation.

121. It is further urged that the proportion between the existing stocks of the two metals and the probable conditions of their future production are such as to render it extremely unlikely that gold would ever cease to circulate, or that any serious disturbance of the equilibrium would occur, at any ratio which is likely to be adopted.

122. It is admitted that no international arrangement would be likely to include all the countries of the world; but it is pointed out that on the assumption that the principal commercial countries were parties to it, the countries outside the Union could only withdraw gold from those inside it by sending commodities in exchange for it, and that the international trade with such countries would not be of sufficient importance to make it reasonable to expect that any substantial impression could be produced in this way on the stock of gold existing within the bimetallic area.

123. In support of the view that a fixed ratio can be effectively maintained over a long period, attention is called to the steadiness in the relative value of the two metals which was maintained from the beginning of this century down to the date when the coinage of silver was suspended by the Latin Union in 1874. Since 1874, on the other hand, the price of silver has on the whole fallen considerably, and has also been subject to constant variations.

In §§ 19 and 21 figures are given showing the relative value of the gold and silver produced over a considerable number of years prior to 1874, together with the relative value of the two metals in the market; and similar information for the period since that date. These figures, it is urged, show that the existence of the legal ratio in France during the first 70 years of the century was sufficient to maintain the market ratio in conformity with it, notwithstanding very large variations in the quantities of the two metals raised from the mines; but that when the operation of the legal ratio ceased to have its effect, a change in the relative market value of the two metals speedily manifested itself.

Q. 3468.

124. On the other hand, it is contended that the stability which was maintained during the first 70 years of the century was due to accidental causes, which enabled the bimetallic system to be maintained; and that the final result would not have been materially different had no bimetallic law been in existence.

The effect of the bimetallic system of the Latin Union.

It is said that—

(a.) Down to the time of the great gold discoveries the conditions of the supply of, and demand for, the two metals were such as would of themselves tend to keep their relative value nearly uniform.

Q. 6336-42; 6568-72.

Had silver been produced in increasing quantities in the earlier part of the century the ratio would have been powerless to prevent its falling in value, as there was no gold in the country which could have given place to the increased supplies of silver; and the operation of the ratio can only be effective in maintaining the relative value of the two metals when there is, within the bimetallic area, a sufficient stock of both. Down to the year 1846, therefore, the ratio was maintained by causes independent of the bimetallic law.

(b.) At the time when the increased supplies of gold began to be placed on the market the French currency had ceased to be bimetallic, and practically was composed of silver only. The large influx of gold altered the relative values of the two metals; gold became over-valued in the ratio and silver under-valued. The latter metal was consequently withdrawn from France for export to the East and other places; and the deficiency in the French currency was supplied by the over-valued gold. To this extent the bimetallic system prevented a serious fall in the value of gold which could not otherwise have been avoided. But it is pointed out that this result was mainly due to the fact that the French currency was not, at the time when the disturbance in the ratio was threatened, on a bimetallic but on a monometallic basis. France,



instead of having a stock of both metals circulating at the legal ratio, had a large stock of the under-valued metal only, and the over-valued metal was poured in to take its place. If she had had a large stock of the latter already in the country the operation of the bimetallic system could not have taken place. Conversely, when the supply of silver began to increase, her currency was almost exclusively composed of gold, which she was able to dispose of in order to meet the demands of Germany and other countries, replacing it again with the cheaper metal, which at this time was silver.

Thus, her monetary system, instead of being bimetallic, happened, whenever the compensating action of the ratio was called into play, to consist almost entirely of the metal which was the cheapest for the time being.

In support of this view the following figures are quoted, showing the total :—

COINAGE of GOLD and SILVER in FRANCE between the  
YEARS 1816 and 1880.

Years.	Gold.	Silver.
	£	£
1816-20 - -	9,758,000	4,970,000
1821-25 - -	2,329,000	17,632,000
1826-30 - -	1,470,000	25,160,000
1831-35 - -	4,131,000	32,881,000
1836-40 - -	2,949,000	15,241,000
1841-45 - -	797,000	15,166,000
1846-50 - -	6,472,000	21,556,000
1851-55 - -	63,346,000	7,159,000
1856-60 - -	108,027,000	3,333,000
1861-65 - -	38,337,000	875,000
1866-70 - -	47,733,000	17,010,000
1871-75 - -	12,376,000	13,704,000
1876-80 - -	25,819,000	2,838,000

It will be observed that from 1816 to 1820 the coinage of gold exceeded that of silver, that from 1821 to 1850 the coinage of silver exceeded that of gold, and that since the latter date gold has again been the metal chiefly brought to the mints.

(c.) The stability of the ratio was only nominal as one of the two metals was, in actual practice, generally at a premium.

From 1820 to 1847 there was constantly a premium on gold which was nearly always as much as one per cent., and occasionally rose to as much as two per cent. Any increase in the supply of silver would of course have increased this premium.

125. To this it is replied that the premium never exceeded very small proportions and only applied to a limited number of transactions in which gold was required for special purposes, such as export; that for the ordinary transactions of the country there was always a sufficient supply of either metal; that as matter of fact both gold and silver were brought to the French mint, and coined\* in every year except in 1871 and 1872, when no gold was coined; that throughout the period in question, gold and silver coins were accepted for all practical purposes at the ratio fixed by the law; and that the efficacy of the bimetallic ratio is proved by the fact that an immense increase in the supplies of gold produced no sensible disturbance in the relative value of the two metals.

126. It is also pointed out that at the present moment in the United States upwards of 55,000,000*l.* of silver dollars or silver certificates are circulating side by side with gold and are accepted in payment of all debts as equivalent to gold, though the intrinsic value of the silver dollar is not more than 70 per cent. of the value of a gold dollar.

Similarly in Holland, where the standard is gold and the coinage of silver is suspended, a currency of about 30,000,000*l.* is maintained at a gold value, concurrently with a gold circulation.

These two cases, it is said, are proofs of the possibility of maintaining a legal ratio between the two metals as coin, permanently differing from the market ratio, without the dearer metal being driven out of circulation, or commanding a premium.

\* In the year 1860 no five-franc pieces were coined, but silver coins of other denominations were issued to the value of 321,000*l.*

Q. 3477;  
3486.

Circulation  
of silver in  
the United  
States and  
Holland.

127. On the other hand it is contended that the illustration is in both cases rendered inapplicable by the limitation of the coinage of silver. In the United States no more than 48,000,000 dollars can be coined in the year, and as matter of fact the coinage has not amounted to more than 30,000,000 annually during the last 10 years; while in Holland there has been no silver coined since 1875.

The silver coins circulating in both countries are therefore for practical purposes only tokens. If they could be coined to an unlimited extent they could not fail to drive out the gold, which would be taken by foreign countries.

It is also said that the condition of the currency in the United States is only possible because the course of trade has induced a flow of gold to that country, and that if the flow of gold were in the other direction that metal would soon be at a premium.

128. In reply to this it is pointed out that, on the hypothesis of an international agreement for bimetallism, the silver would be equally available for export, and that in such a case no reason would exist for a drain of gold rather than a drain of silver.

129. It is argued that as the production of silver has increased of late years, and the production of gold diminished, notwithstanding the increased value of the latter relatively to the former, the process is likely to continue, and that therefore it would become increasingly difficult to maintain a fixed ratio, even if the existing market ratio were adopted, as the effect would be to stimulate the production of silver, and to discourage the production of gold.

A rise in the value of silver would stimulate its production and check that of gold.

The result would be in a short time to drive gold out of circulation, and to leave silver as the only metal available for currency throughout the world; while if a ratio of 15½ or 16 to 1 were adopted, the stimulus to an increased production of silver would be far greater and the maintenance of the ratio more difficult, thus accelerating the period when silver alone would be found in circulation.

130. In reply to this it is said—

(a.) That there are no grounds for supposing that in any period, however remote, the relative value of the two metals in the market, as compared with the legal ratio, could be so different as to drive out of circulation the whole of the gold now existing as coin or used for monetary purposes. Such a hypothesis would involve the absorption for other purposes of the existing stock, roughly estimated at 900,000,000*l.*, and the annual production of about 20,000,000*l.* On the other hand those who consider that gold might, under these circumstances, cease to be used for circulation, do not contemplate that it would be demonetised, and it might therefore still be held by Governments and by banks as a reserve.

(b.) That if such a hypothesis were admissible, it would follow that if the metals continue to be used as standards of value separately, very great divergence in the relative value must occur; that such divergence would involve greater evils than the disappearance of one of the metals from the currency under a bimetallic system; and that the disappearance of one of the metals from the currency of the world under a bimetallic system would not of itself be productive of any serious evils.

(c.) That the economic laws which regulate the production of other commodities do not appear to operate to the same extent in the case of the precious metals. Their production is of a specially speculative character, and is frequently commenced or continued with very doubtful prospects of a profitable return. The quantity of either metal produced appears to depend much more largely on the accident of the discovery of new sources of supply; and it is to be observed that the supply of gold has fallen off throughout the last few years when its purchasing power was rapidly increasing, while the supply of silver has continued to increase, notwithstanding the fall in its value relatively to gold.

131. It is stated by the opponents of bimetallism that the question is argued as if the only demands for gold and silver were demands for the purpose of currency, and that this is very far from being the case. Statistics are confessedly imperfect, but, so far as they go, it appears that the demands on the precious metals for purposes of ornament, of industry, or of hoarding already absorb something like half of the annual production, and are increasing constantly. Over these demands, it is said, mint legislation can exercise no influence. If they stood alone, no one, it is urged, would think it possible to restrict their natural operation by any artificial tie between the two metals; and as matters really stand, any effect which such an artificial tie might have would, it is said, be liable to be defeated by the demands for other purposes.

The bi-metallic ratio could not affect the demand for non-monetary purposes.

132. To this it is replied—

(a.) That industrial demands for gold and silver existed during the period anterior to 1873, during which period there was no material disturbance in the relative value of gold and silver.

(b.) That an increased demand for one metal for non-monetary purposes of any kind would simply produce the same effect upon the ratio as a diminution in the supply of that metal from the mines, or an increased supply of the other.

(c.) That currency demands still preponderate over other demands, and are likely to do so.

(d.) That so far as experience goes, the increased demand of late years for purposes other than currency has been for gold rather than silver, the effect of which the adoption of bimetallism under present circumstances would tend to counteract.

Legislative enactment is powerless against habit and sentiment.

Q. 9025-7 ;  
9278-82.

133. It is also urged by the opponents of bimetallism, that it attaches too much importance to the law of legal tender, and too little to the habits and feelings of mankind; that the adoption of gold as the single standard of value and as the chief material of currency is not the result of arbitrary legislation; but that it has originated in natural convenience, in voluntary preference, and in habit, and that it has consequently been sanctioned by legislation. It is further urged that under such circumstances it is quite possible that men of business may, notwithstanding a law making silver as well as gold legal tender, require contracts to be made in gold exclusively, and thus give gold a practical value very different from the legal ratio. The mode in which, according to Lord Liverpool, our own gold standard was introduced; the history of the adoption of gold by the United States, Germany, France, and Italy; the example of California and of gold contracts often made with paper-using countries, all point in this direction. Legislation, it is said, which is contrary to the general current of human dealings, is not likely to be successful.

134. To this it is replied by bimetallicists that men's dealings tend to conform to their interests; that under a legal system of bimetallism it would not be to the interest of either debtors or creditors to insist upon paying or receiving one metal rather than the other, except under special circumstances not likely to be of frequent occurrence; that the instances of supposed natural preference for gold have been misstated or misapprehended; that Lord Liverpool was not a contemporary witness of the change from silver to gold to which he refers, and that his account of the causes which led to that change was contradicted by Ricardo in 1816; and that a great mistake has been made by modern legislators, who have forced gold upon the people to the exclusion of silver, where under earlier and more wholesome systems, both metals would have been equally available.

Mode in which bimetallism would remedy existing evils.

135. We have so far dealt with the views held as to the effect which would be produced on the relative value of the two metals themselves by the establishment of a bimetallic system of currency.

It remains to consider whether and how far such a system, if carried out, would remedy all or any of the evils which are said to be caused by the existing relations between the two metals.

For this purpose it must be assumed that one effect of a bimetallic system would be, as claimed by its supporters, to preserve a fixed ratio between gold and silver, if not permanently, at least for a long period of time, or to confine the variations in their relative value within such narrow limits as practically to make them of no consequence.

Exchange difficulties would be reduced.

136. It may be convenient here to repeat that the evils which are said to result from the existing relations between the precious metals are of a twofold character.

There are inconvenient fluctuations in their relative value; and there has been a considerable fall in the gold price of silver.

It is contended that all the evils now caused by *fluctuations* in the relative value of gold and silver would be removed.

The par of exchange between gold-using and silver-using countries would again become stable, as it was prior to 1873, and the inconveniences which are inseparable from trade carried on between two countries having different metallic standards would be reduced to a minimum.

Trade would, it is said, return to its natural channels, and cease to be subject to the abnormal influences which now affect it prejudicially.

A further fall of prices would be prevented.

137. In the second place it is urged that the maintenance of a fixed ratio would tend to prevent any further general fall in prices. To whatever extent the fall of

gold prices is due to the displacement of silver by gold, or to the diminished production of the latter metal relatively to the demands upon it, it would be counteracted by the reinstatement of silver in those countries where its use as a standard metal has been abandoned. Prices would consequently tend to rise, or at any rate cease to fall.

If the ratio adopted were higher than the existing market ratio, then, in so far as the causes above mentioned have operated on prices, the effect of the change would be proportionately greater. The rise would be more certain and more considerable.

138. If, and in so far as, the gold prices of commodities produced in, or exported to, silver-using countries have been reduced by the fall in the gold price of silver, as maintained in the argument developed in § 88, the establishment of a fixed ratio between the two metals would prevent further changes from the same cause if the existing market ratio were adopted; but the existing situation and the fall already produced would not necessarily be affected. If the ratio adopted were that in force prior to 1873, the prices of these commodities would tend to rise to the extent to which they have been depressed by the cause above referred to; and the evils which have flowed from such fall in prices, and which are described in § 94 would be removed.

139. But it does not follow, even on the hypothesis that the gold prices of commodities have been reduced by the fall in the gold price of silver, that they would regain their former level, as they would always be subject to influences of the same nature originating in countries with a depreciated paper currency.

But a rise would not necessarily follow.

Q. 8383.

The suggestion is that the fall in the gold price of silver has, through the more advantageous position of the producer in silver-using countries, caused a fall in the price of the commodities which he produces, and that a similar process would take place in the case of any country with a paper currency depreciating in relation to gold, and thus the competition of producers in these countries might prevent the gold price of commodities rising, notwithstanding a rise in the gold price of silver.

For example, the production and export of Russian wheat has, it is said, been greatly stimulated by the same cause which has operated upon the production and export of Indian wheat, namely, the depreciation relatively to gold of the currency of the country, which, in the case of Russia, is inconvertible paper, now about 35 per cent. below its nominal value.

If the gold price of Indian wheat is affected by the fall in the gold price of silver, the gold price of Russian wheat must, it is said, follow the fall of the paper rouble; and no fixity in the relation between silver and gold would affect the prices which depend upon an inconvertible paper currency.

If the paper rouble continued to fall it would tend to lower the metallic price of the Russian wheat exported, and consequently the price of all other wheat.

So again if the gold price of the goods exported from Lancashire to India has been lowered by the fall in the value of silver, owing to the Indian purchaser being able to give only the same silver price (or a lower gold price) for them, then if the gold price of Indian produce did not advance *pari passu* with the advance effected by the establishment of a fixed ratio, neither would the gold price of the commodities exported to India so advance.

140. If, and in so far as an appreciation of the gold standard has arisen from the disuse of silver, the evils arising from the disturbance of contracts extending over a period commencing prior to the changes which we have been considering, would be counteracted by the restoration of silver at the old ratio to its former position as a standard metal; but, on the other hand, all contracts made for a term of years since the appreciation commenced would be disturbed to the same extent.

Disturbance of contracts would cease.

141. The advantages which would flow from a standard possessing the maximum amount of stability, would, it is said, be secured by having the two metals linked together at a fixed ratio. Any variation in the value of either metal, instead of operating as at present on that metal alone, would, on the hypothesis of a bimetallic currency, operate upon the whole mass. The effect of the variations would, therefore, be much less intense.

Stability of the standard would be ensured as far as possible.

It is improbable that the variations in the supply of either gold or silver would be simultaneously in the same direction. An increase in one might often be accompanied by a decrease in the other; and the volume of the currency would thus be maintained in equilibrium.

Q. 3662 ; 3675-6.

Resumption of specie payments in some countries would be facilitated.

Evils which would be caused by bimetallism.

142. It is also suggested that a bimetallic system would facilitate the resumption of specie payments by countries such as Russia, Austria, and Chili, whose currency largely consists of inconvertible paper based on silver.

143. In preceding paragraphs we have stated the extent to which, in the view of its supporters, the proposed remedy would counteract or modify the evils of the existing system.

Those, on the other hand, who are in favour of maintaining the *status quo* in this country, contend that the proposed remedy would itself cause other evils which are demonstrably equal to, or greater than, those which have been proved to exist.

Their objections divide themselves into two classes, (i.) those relating to the adoption of the bimetallic system in principle, (ii.) those which are directed against one or other of the several ratios recommended for adoption.

The commercial position of England would be affected.

Q. 6670 ;  
9293.

144. Under the first head it is asserted—

(a.) That the United Kingdom, and more particularly London, is, and has been for many years, the financial centre of the world. Transactions having no other relation with the actual commerce of the country are settled by means of agencies in London, which thus derives great pecuniary benefit from this position.

This supremacy arising, it is maintained, in a great measure from the knowledge that a debt payable in London will be discharged in a definite quantity of a certain metal which can always be readily obtained there by those entitled to it, would be endangered by the adoption of bimetallism with the uncertainty necessarily accompanying any system which allows to a debtor a choice of alternatives for the discharge of his liabilities.

Q. 6920.

On the other hand, it is denied that this supremacy would be endangered by the adoption of bimetallism, inasmuch as a sufficient explanation of England's position is to be found in the confidence imparted by her insular position, her comparative immunity from wars and other political troubles, the magnitude of her commerce, and the reputation of her merchants and bankers.

It is also said that, so long as a debt payable in London could be discharged in metal freely coined into money throughout the world, England's position as a financial centre could not be injuriously affected.

A feeling of insecurity would be aroused.

(b.) That the actual uncertainty caused in the present by an important monetary change would be enhanced by the apprehension of further changes in the future; and that there are scarcely any material advantages which would compensate for the evils arising from the want of confidence which would thus be engendered.

To this it is replied that with the exercise of proper care and a conviction on the part of the public that the change was well considered and final, no apprehension need be excited; and that in any case the disturbance so caused would be of a temporary character.

Injustice would be caused to creditors by the option given to debtors.

(c.) That injustice would necessarily be done to creditors if a debtor were allowed to select one of two metals in which to discharge his debts. He would naturally choose the metal which happened for the moment to be depreciated, and would therefore gain an advantage which could not be contemplated or allowed for at the time when the liability was incurred. England, also, as a creditor country, would suffer specially by the change, and other countries would benefit at her expense.

To this it is replied that a bimetallic system, if adopted internationally, as proposed, would preclude the possibility of either metal becoming depreciated relatively to the other, except within such very narrow limits as to be practically unimportant.

Gold the natural metal for currency.

(d.) That silver, owing to its greater bulk and weight in relation to its value, has disadvantages as compared with gold, both as a medium of exchange and as a means of storing value.

To this it is replied that, under the existing systems of the principal commercial countries, but a small proportion of payments is made in either gold or silver; and that under a bimetallic arrangement transactions would be carried on, as at present, by means of cheques, bank notes, and other substitutes for coin. Gold and silver would probably continue to pass current much as they do now, and if there should happen to be a large excess of silver coined as compared with gold, notes of smaller denominations might be issued to meet the difficulty.

In many countries all debts can at the present moment be discharged in silver or gold at the option of the debtor; but no practical inconvenience arises from this fact.

The opponents of a bimetallic system rejoin that, on the hypothesis of a serious depreciation in the value of one metal, the other might be driven out of circulation

altogether and cease to be available for the purposes for which it is now required and used; and they point out that in the countries where the debtor may now pay his debts in either gold or silver, a complete system of bimetallism does not exist, as the mints are not freely open to both metals.

145. Finally, it is alleged that the arguments on the subject of bimetallism being founded on various hypothetical premisses which in the present state of our knowledge are unverified and incapable of verification, the conclusions and practical results must also be extremely uncertain; and that this uncertainty is in itself a sufficient reason for not making a fundamental change in things so delicate and so important as currency and the standard of value.

Uncertainty of the effects which will be produced by the proposed change.

To this it is replied that, though the conditions at the present time may not be precisely the same, sufficient experience has been acquired by an investigation of the working of bimetallism prior to 1873 to justify a conclusion as to the effect which would now be produced by the adoption of such a system.

It is also said that as changes of some sort appear to be inevitable, it is desirable that they should be made deliberately, and that the different nations interested should act in concert.

146. Passing next to the objections which are connected with the particular ratio that might be adopted, it is contended that if the ratio actually existing in the market between the values of the two metals were adopted, or some ratio approximating thereto, most of the evils which are alleged to have been caused by the fall in the value of silver would be perpetuated, and that in the case of India such a measure might create a serious obstacle to the prosperity of the country owing to the increased burden of its gold debt being made permanent.

Objections to the adoption of the existing market ratio; Q. 8433.

On the other hand it is urged that, so far as the general interests of India are concerned, the advantages to be gained from stability and the increased certainty which would attend the financial arrangements of the Government would amply compensate for any evils arising from the cause above indicated.

147. It is further argued that even if the adoption of the existing ratio did not produce any permanent effect upon prices, it might, by inducing the belief that it was likely to result in an expansion of the currency, cause a temporary rise; and that if it stimulated the production of silver, unless at the same time it discouraged the production of gold, it would tend to raise prices permanently, and so act injuriously upon the interests of creditors and consumers.

To this it is replied that the settlement of the relations between gold and silver used as standards of value is of such importance as to justify some sacrifice being incurred, if necessary, for that purpose. If silver, when freely coined into money throughout the world, will so depreciate as to produce injurious consequences, it will depreciate still more if used only in a limited number of countries, and the probable attempts of these countries to change from the silver to the gold standard would aggravate the mischief and give rise to evils of still greater magnitude.

148. If the ratio of  $15\frac{1}{2}$  to 1 were adopted, which is that in force in the Latin Union, or that of 16 to 1, which is the ratio in the United States, it is apprehended that there would be a flow of silver from the countries which now hold stocks of that metal, and that the mints of the other countries forming the Bimetallic Union would be flooded with it, while the countries possessing silver would benefit at their expense.

and to the adoption of the old ratio

It is however denied that there are any considerable stocks of silver which would be available for this purpose, those already in existence being used and required for purposes of currency in the countries in which they now are.

149. It is urged that if, in consequence of deficiency in the supply of gold, or of new demands upon the existing supply caused by the legislation of other nations, gold has appreciated and the prices of goods have fallen, England as a country to which large gold debts are due must be deriving advantage from the change, since she must receive from other countries in payment of interest on her gold debts a larger quantity of goods, or money which will buy more goods, than she would otherwise have received, and that if under these circumstances a change were introduced which tended to cause the depreciation of gold or the raising of gold prices, a serious injury would be done to the general interests of the country.

Effect upon England as a creditor country. Q. 9270.

The rejoinder to this argument will be found in § 96 (*k*).

150. Any advantage now gained by some classes in the country owing to the fall of prices would also, it is said, be neutralised. Prices would rise, and since, as has been

Rise of prices would ensue.



already pointed out, wages do not respond immediately to movements in the level of prices, the wage-earning classes would suffer. The process of adjustment which has been going on since the fall in prices commenced would begin in the opposite direction, and all the friction produced by it would be repeated.

To this it is replied that wages respond more readily to upward than to downward movements in the level of prices, and that, until a real stability of the standard is attained, the process of adjustment and the consequent friction among the different interests concerned must be going on in one direction or another, and that the advantages of a stable standard would amply compensate the country for either the temporary friction necessary for the final adjustment, or the permanent loss of the profit which is said to arise from the debts due to it by foreign nations.

151. The extent to which the adoption of a ratio making silver more valuable as compared with gold than at present would affect prices, is a question which depends upon the view taken of the effect of the volume of the currency upon prices, and the arguments set forth in §§ 58 and 59.

But it is said that, even if those who entertain the view that monetary changes have been the most potent factor in producing the fall of prices in recent years be mistaken, the fact that such a belief is entertained by a large number of persons would be likely to foster speculation, and thus produce, if only temporarily, a rise of prices which might attain a high level.

152. If, and in so far as a rise of prices resulted from the restoration of silver to its former relation with gold, debtors would benefit at the expense of creditors, and, on the assumption that the rise of wages would be slower than the rise of prices, the wage-earning classes would suffer most; but it is suggested as probable that there would not be a long interval between the rise of prices and an upward movement in wages.

It is urged that it would be unjust to make a deliberate change in the conditions of all existing contracts by a direct act of the Legislature, and so give an advantage to one class in the country at the expense of another.

153. To this it is replied—

(a.) That those who have gained by the changes in the value of the precious metals have gained by accident, and not from causes due to their own foresight or calculations.

(b.) That the injury caused by the change would be of a temporary character only, while the change would itself produce permanent benefits of much greater extent.

(c.) That the right of the State to make alterations in its currency laws cannot be disputed, and that all contracts must be assumed to have been made subject to this risk.

(d.) That if the change is necessary in order to place the currency of the country on a satisfactory basis, the State is justified in making it, even though incidentally it may have an injurious effect upon the interests of some individuals or classes, and that such disadvantages are of less moment to the community at large than the adoption of a standard of value possessing the maximum of stability.

154. To revert to the former ratio would also, it is said, have a specially prejudicial effect in the case of India.

If the effect of bimetallism at that ratio should be to appreciate silver and cause silver prices to fall, or if the gold price of Indian produce did not rise to the same extent as the gold value of silver was raised, the Indian producer would for the same amount of produce receive less silver, whilst he would, subject to the reduction of taxation which would be caused by the advantage gained by the Government as regards its gold payments, have to pay the same amount of rent and taxes as he now pays. In this way a burden would be thrown on the Indian producer.

He would also be deprived of the advantage which the continued fall in exchange is alleged to give him in competing with other countries.

It is also said that, if it be true that the gold price of the commodities produced in India has fallen in response to the fall in the gold price of silver, it does not follow that the reverse process can be counted on. Where there is an increasing production of any commodity and competition for its sale, the process of reducing price is more easy than that of raising it. It is possible, too, that in competing for the sale of produce with Russia, or any other country whose currency depreciates, the Indian producer might, in order to secure a sale, be compelled to take the same

Injustice of making a legislative change in the conditions of existing contracts.

Q. 4123-44;  
4154; 5383.

Effect upon India of a rise in the value of silver.

Q. 2063-5.

gold price as at present. This would be equivalent to a lower silver price, and might, it is alleged, produce serious results to the trade of the country.

155. On the other hand it is urged that it is very improbable that the gold price would not rise if the volume of currency in the gold-using countries was increased by the restoration of silver to its former relation with regard to gold; and that in so far as prices fell in India, consumers and the wage-earners (so far as they are paid in money) could obtain those advantages which are said to have accrued to the corresponding classes in England from the fall in gold prices.

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## II.

156. We will pass next to the questions which have been raised as to the practicability of (a) inaugurating, and (b) maintaining, such an agreement as that which is proposed between the chief commercial nations of the world.

Practica-  
bility of  
proposed  
agreement at  
either ratio.

It is said on the one hand that France and the United States would be unwilling to agree to an arrangement based on the ratio at present subsisting between the market value of the two metals, on account of the large amount of silver which is held by those countries, and which has been coined at a ratio of  $15\frac{1}{2}$  to 1 in the case of France, and of 16 to 1 in the case of the United States.

If a ratio greatly differing from this were adopted, the standard silver coins of those countries must either become admittedly token coins, or pass current at a large reduction from their nominal value.

157. On the other hand it is urged that the interest of these countries in securing a stable ratio between the two metals for the future is so great that they would probably agree to such an arrangement rather than be left in their present position, with the possibility of a still further fall in the gold price of silver.

It is argued also that the inconvenience in the case of the United States, or of France, if the ratio, say of 20 to 1, were fixed would not be serious. There is no reason why the silver existing in the form of coins at the ratio of  $15\frac{1}{2}$  or 16 to 1 should not continue to circulate and be received concurrently with a new coinage at the altered ratio, and why people should not continue to receive them as readily as they do now. It may be said that there would be a danger of the manufacture of imitations of the existing coins. But this danger is as great at present, when the gold price of silver differs so much from the legal ratio; and as regards the silver certificates which circulate to so large an extent in the United States, representing silver at the ratio of 16 to 1, if 25 per cent. of the existing quantity were converted into a fiduciary issue, which might be done without difficulty or public inconvenience, the position of the United States Government would be unaltered.

158. As an alternative arrangement, the adoption of the former ratio of  $15\frac{1}{2}$  or 16 to 1 is suggested; and it is contended that if such a ratio were adopted by England, the United States, the Latin Union, and Germany, all the other commercial countries of the world would join the Union; and that whether they joined or not, the effect of such an arrangement would be to maintain that ratio.

159. The position of India in view of any such combination would, however, it is said, be very difficult. On the one hand the amount of her gold liabilities makes a stable relation between the two metals a matter of the first importance to her; and on the other, any serious rise in the value of silver would, it is said, produce the evils already pointed out.

160. As regards the maintenance of the bimetallic arrangement, if once established, it is asserted that it would be to the interest of all the contracting parties to adhere to it, and that there would be no inducement to any Power to secede. The seceding Power would, it is urged, cause more inconvenience to its own subjects than to anyone else, and no sufficient motive for secession can be suggested.

Possibility of  
maintaining  
arrangement  
if agreed  
upon.

161. On the other hand it is pointed out that the action of a nation is not always regulated by a wise regard for its own interests alone. Its policy is sometimes mistaken, and sometimes actuated by other motives than self-interest. Q. 5787.

The adoption of a gold standard by Germany is cited as an instance of a currency change made without any advantage commensurate with its cost.

To this it is replied that the currency change made by Germany took place at a time when the effects of such a change were unknown and unforeseen, and that with

the experience gained since 1873 no similar change need be apprehended in the future, if an understanding between the chief commercial nations were arrived at.

Effect of  
suspension  
of cash  
payments.  
Q. 3670.

162. One probable cause for any failure of the bimetallic arrangement would, it is said, be found in the necessity for the suspension of cash payments and the issue of a large amount of inconvertible paper in any one of the contracting countries.

This measure, however, it is said, would not affect the stability of the legal ratio in other countries. The only result of the establishment of an inconvertible paper currency in a bimetallic country would be that its specie, whether gold or silver, or both, might flow to other countries and increase the circulation of the rest of the world. The principle of the bimetallic system would remain intact, though it might cease to be practically operative in that country.

If a bimetallic arrangement were in force, the effect of such a step would, as regards the flow of the precious metals from the country suspending cash payments, be precisely the same on other countries as at present, whilst its distribution might be so altered as to cause less disturbance.

163. In reply, it is contended that though the suspension of cash payments in any one country might not defeat the operation of the bimetallic arrangement in other countries, it would materially restrict the benefits supposed to flow from that system, both by limiting the area within which it would operate, and by pouring into other countries the stock of metal, whether gold or silver, previously held by the country suspending cash payments.

Tendency to  
accumulate  
gold even  
under a  
bimetallic  
system.

164. It is further urged that there is a growing tendency among all commercial nations in favour of the use of gold rather than silver for currency purposes, and that the fear of holding too much of the less popular metal in their reserves would induce Governments and bankers to seek to get rid of it and increase their store of gold. A struggle for the possession of gold might thus be brought about, which would prove a severe strain upon the bimetallic arrangement.

Q. 9286-90.

This motive, again, would be intensified by a sense of the precarious nature of the arrangement, by apprehensions that other nations would depart from it, and by a desire on the part of each nation to protect itself, as far as possible, from the mischievous consequences which would result from such departure, if it were left with a large stock of the less esteemed metal.

Further, if it should prove that, for any of the reasons mentioned above, any of the nations should not adhere to the arrangement, the position of England, if she adhered to it, would be seriously compromised. The whole arrangement depends upon leaving free scope to commercial motives; and in this respect England is less likely to interfere than foreign Governments with the free commercial distribution of the precious metals.

165. In reply, it is asserted that the sentiment in favour of a gold standard is based merely on the convenience of that metal as a circulating medium for certain purposes; that the tendency of the more advanced nations is towards the use of paper or other substitutes for coin; that so long as the different nations maintained the unlimited coinage and full legal tender of silver, the hoarding of gold would be found unprofitable and perhaps impossible; and that if the legal ratio fixed approximated to the market ratio, and the arrangement were for an indefinite and not a fixed period, there would be much less ground for any of these apprehensions.

### III.

Conse-  
quences of  
maintaining  
the status  
quo.

166. In addition to the arguments stated above, the advocates of bimetallicism urge in support of their proposals that far greater difficulties will arise if the hope of establishing a stable ratio between silver and gold is finally abandoned.

It is asserted—

(a.) That even if the countries of the world were divided permanently into gold-using and silver-using nations there would be continual fluctuations in the relative value of the two standards, with the evils which necessarily flow from such a state of things, and that as this state of things never prevailed in the past before 1873, it is probable that it might give rise to unsatisfactory results, beyond those of which we have experience.

(b.) That it is impossible to devise any satisfactory principle on which the permanent division of the countries of the world into gold-using and silver-using nations could

be based, and that, if such a principle could be devised, it would not be found possible to apply it in practice.

(c.) That no settlement of the relations between gold and silver money, of a satisfactory nature and affording a prospect of permanence, is probable or possible without the acceptance of the principle of the unlimited coinage and full legal tender of both gold and silver at a fixed ratio.

(d.) That in the absence of such a settlement every nation using either gold or silver as its standard will remain liable to disturbances of its standard of value from time to time, which might have very serious consequences.

(e.) That the existing situation presents no elements of finality and no reasonable ground for anticipating any definitive solution of the difficulties with which it is now surrounded. On the contrary a further fall in the gold price of silver, to even half the extent of that which has taken place since 1873, would dangerously affect the financial position of the Government of India; would still further disorganise our commercial relations with that and other silver-using countries; and would materially aggravate the depression which has affected so many branches of trade and industry.

#### FURTHER REMEDIES.

167. The system of currency which we have dealt with in §§ 116-166 is that which is usually known under the name of bimetallism. We have examined it at length, partly on account of the weight of authority by which it is supported, and partly because, if the serious nature of the evils described in §§ 69-113 be admitted, no other proposal which has been submitted to us appears to apply so complete and practical a remedy. Remedies other than bimetallism,

Two schemes have indeed been suggested for attaining the end in view.

According to one proposal the standard coin would be composed of both metals in certain specified proportions. This could be effected either by fusing the two metals and forming an amalgam coin, or by the insertion of a small disc of gold in the centre of a silver coin. An amalgam coin.

The practical difficulties in the way of both the manufacture and the use of such a coin appeared to us so great that we did not subject either form of the proposal to a minute examination.

168. A plan presenting fewer difficulties has been submitted to us by Professor Marshall. His suggestion is that the currency should consist of paper issued against deposits of the two metals in certain defined proportions. Any person bringing to the Issue Department the required quantity of gold and silver bars would receive the equivalent in currency. Paper based upon "linked bars."

The principal advantage claimed for this plan is that the currency would be really bimetallic, that is to say, it would necessarily always consist of the two metals in the prescribed proportions, and not of that one alone which happened to be for the moment most easily procured.

Its effect upon the production of the two metals would, it is said, also be beneficial, as it would encourage the production of the metal which was being produced at the greatest cost, instead of the reverse, which would be the case under what is ordinarily known as bimetallism.

On the other hand, if the supply of one metal was materially reduced, a contraction of the currency would not be avoided; and to ensure the effective operation of the scheme it would be necessary that all the important silver-using countries, and especially India, should be included in the arrangement.

To this proposal also we have not thought it necessary to give a prolonged consideration. Any scheme which involves so great an alteration in our system of currency would be so opposed to the traditions and prejudices of the people of this country, that we think some considerable period of time must elapse before it will have gained that amount of support among the public which will entitle it to be considered as a practicable proposal.

169. A third suggestion is that the system now in force in the Latin Union, the United States, and Holland, namely, the maintenance of both metals as legal tender to any amount with free coinage for gold alone, and a large, though limited, coinage of silver, should be extended to all countries. Maintenance of the "Étalon boîtesux."

From the experience of those countries, it is urged that a considerable amount of silver can be kept in circulation side by side with gold at a rate greatly exceeding

its market value; and it is contended that if their practice were generally carried out, a great additional demand for silver would be created, and its use would be so extended as to keep its value relatively to gold at a more uniform level.

170. We may here refer to certain proposals of a somewhat similar character which arose out of the proceedings of the International Conference on the monetary question held at Paris 1881.

Proposal that the Bank of England should hold silver.

It was then suggested that the fall in the value of silver might be alleviated if the Bank of England would undertake to make use of the power which it possesses under the provisions of 7 & 8 Vict. cap. 32, of holding one-fifth of its bullion reserve in silver; such an undertaking being coupled with a pledge that the Governments of the United States and of the countries forming the Latin Union would re-open their mints to the free coinage of silver.

The Directors of the Bank having been consulted on this proposal pointed out in reply that they were compelled by law to pay all their notes in gold, and that they could not therefore take any step which was likely to infringe this principle; but that if the mints of other countries returned to such rules as would ensure the certainty of conversion of gold into silver and silver into gold, they saw no reason why they should not exercise the discretion entrusted to them of holding a portion of their reserve in silver, without interfering with the obligation imposed on them by law of receiving gold in exchange for notes and paying notes in gold on demand.

Proposals of the Italian Government in 1882.

171. In the early part of 1882 a further suggestion was made by the Italian Government that, failing a bimetallic arrangement, an international agreement might be arrived at on some such basis as the following:—

The States of the Latin Union to undertake for a fixed period, say five years, to coin silver annually to the amount of at least half a franc per head of population:

The United States of America to coin at least 3,000,000 silver dollars a month during the same period:

The Government of India to maintain the unrestricted coinage of silver:

The Government of the United Kingdom to raise the legal tender limit of silver from 40s. to 20l.; to coin a minimum amount of 500,000l. in silver annually; and the Bank of England to hold one-fifth of its reserve in silver:

The Government of Germany to undertake not to sell any silver for five years, and to substitute silver coins for the gold five-mark pieces and some of the smaller denominations of notes.

No definite answer appears to have been given to these proposals, and up to the present date they have not been acted upon.

172. A further suggestion for promoting the more extended use of silver, as well as economising gold, is that the half-sovereigns circulating in this country should be called in and notes to the value of 10s. and 20s. each should be issued against silver in place of them.

Repeal of duty on silver plate.

173. Complaints are also made that the use of silver for industrial purposes is much restricted owing to the duty of 1s. 6d. per oz. which is levied on silver plate manufactured in this country or imported from abroad.

The duty is said to bear with special severity upon those branches of Indian industry which are engaged in the manufacture of silver plate or ornaments.

Not only does the duty (which now amounts to upwards of 40 per cent. on the value of the raw material) restrict the demand for manufactured silver, but, owing to the Hall-mark regulations, only silver of the authorised standard can be introduced into this country for purposes of trade, the importation of lower grades being prohibited except for private use; and the rupee standard in India is slightly below the standard required by the Hall-mark regulations in this country, its millesimal fineness being 916, as against 925.

The repeal of the duty has been repeatedly urged by the Government of India in the interests of those engaged in the industry in that country; and the amount of revenue which is now raised from it (between 50,000l. and 60,000l. per annum) is so small that it could be surrendered without creating any serious disturbance of the financial equilibrium.

The main difficulty which is understood to stand in the way of the repeal of the duty is the question of the drawback to be granted on the plate now in the manufacturers' hands which has already paid the duty; but the concession of the drawback

might be limited to a moderate period, say three years, and this difficulty ought not to be an insuperable obstacle in the way of a desirable reform.

174. One common object of all the proposals above described is to meet the difficulties and inconveniences of the existing situation by promoting the more extended use of silver.

Suggestions have also been made for avoiding the existing pressure upon the stock of gold in the world by still further economising its use.

The most practical proposal from this point of view is that for the introduction of a fiduciary issue of *l.* notes in this country.

Extension of  
fiduciary  
issue of  
notes.

Such a measure would, it is said, set free a sum estimated at from 8,000,000*l.* to 20,000,000*l.* sterling, which would be available to meet the large demand for gold in America and elsewhere.

Any result, however, which could be produced by the release of this amount of gold would be very transitory in its effects, even if it be assumed that it would have any influence upon the level of prices or the commercial interests of the world.

Considering the many serious questions with regard to our financial policy, and other matters not immediately connected with our inquiry, which would be raised by such a measure, and the very slight effect it might have upon the relative value of the precious metals, we have not thought it necessary to give a prolonged consideration to the proposal or to pronounce a decided opinion upon it.

175. It has further been suggested that the difficulties of the Government of India, so far as they arise from the difference between the standard of value in that country and the United Kingdom, might be removed or modified by the adoption of a gold standard in India, while retaining the existing silver currency. The first step towards such a measure would be to raise, by artificial means, the gold value of the rupee to any point which might be decided on, either by stopping the free coinage of silver in India, or by imposing such a seigniorage as would raise the cost of a silver rupee to its gold value; while at the same time British or Indian gold coin would be made legal tender for all payments to the Government concurrently with the rupee at the fixed rate.

Adoption  
of a gold  
standard in  
India.

176. A proposal of this character was submitted by the Government of India to the Home Government in 1878, and was referred for consideration to a Departmental Committee, who reported that they could not recommend the proposal for adoption.

The principal objections which are urged against it are—

(a.) That by enacting a gold standard without a gold currency it would be practically equivalent to the establishment of an inconvertible token currency.

This difficulty it is said would only be of importance if gold was required for export; and the flow of the standard metals is at present, and is likely to remain in the direction of India. For internal use the existing rupee currency would be sufficient.

(b.) That the closing of the only mint now open to the free coinage of silver might have so serious an effect upon the market value of the metal that it would be impossible to maintain the rate of exchange fixed upon.

(c.) That it would not meet the real difficulty of the present situation in India, which is that, owing to the fall in all gold prices, a larger amount of produce has to be exported in payment of gold debts; and that consequently any apparent gain to the Government of India would be balanced by a corresponding loss to the people of that country.

(d.) The danger of illicit coinage, which would be greatly increased if the exchange value of the rupee were raised much above its intrinsic value.

To this it is replied that the danger, such as it is, already exists not only in England, but on the Continent; but it is not believed that any serious amount of illicit coinage takes place.

177. Another proposal of a similar character is to make gold legal tender in India at a rate to be fixed by the Government from time to time. Such a measure would, it is urged, bring into use for currency purposes the large hoards of gold which are known to exist in the country; and the ratio, which would at first be fixed according to the market value of the two metals, would gradually tend to approximate to that which subsisted before the recent divergence.



CONCLUSIONS AS TO THE CAUSES OF THE DIVERGENCE IN THE RELATIVE VALUE OF THE  
PRECIOUS METALS.

178. We will now proceed to state the conclusions to which we have been led by a consideration of the several arguments set forth in the previous pages.

179. We have pointed out that the phenomena with which we had to deal were (a) extensive fluctuations, and (b) a considerable fall in the gold price of silver, which have manifested themselves since 1873.

For forty years preceding that date there was a difference of only  $2\frac{1}{2}d.$  between the highest and lowest annual average price of bar silver in London. Between 1873 and 1887 the difference was  $14\frac{1}{2}d.$

Not only have the variations in price covered this greatly extended range during the later period as compared with the former, but the fluctuations from time to time in the course of a month, or even of a few days, have been much greater.

Changes in  
the supply  
of the two  
metals.

180. The first point which naturally invites attention as an explanation of the *fall* in the gold price of silver in recent years is the large increase in the production of silver, coincident with some diminution in the production of gold.

The annual average production of the former metal, according to Dr. Soetbeer's estimate, has increased from 1,339,085 kilogrammes, valued at 11,984,800*l.*, in the five years 1866-70 to 1,969,425 kilogrammes, valued at 17,232,450*l.*, in the five years 1871-75, and to 2,861,709 kilogrammes, valued at 21,438,000*l.*, in the five years 1881-85; thus showing an increase between the first and last periods mentioned of upwards of 100 per cent. in quantity and nearly 80 per cent. in value.

On the other hand, according to the same authority, the annual production of gold, which averaged 195,026 kilogrammes, equivalent to 27,206,900*l.*, from 1866 to 1870, fell off to 173,904 kilogrammes, or 24,260,300*l.*, from 1871 to 1875, and to 149,137 kilogrammes, or 20,804,900*l.*, between 1881 and 1885, a diminution of nearly 25 per cent.

Changes in  
the demand.

181. In addition to changes in the relative production of the two metals during the last 15 years, there appears to be ground for the allegation that there has been during that period both increased use of gold and diminished use of silver for currency, resulting from changes which were made in the currency systems of various countries immediately before, or during, that period.

Gold.

182. The amount of gold actually coined in Germany since 1871 has been upwards of 98,000,000*l.*, of which about 80,000,000*l.* is said to represent the new demand. But a considerable proportion of this new demand appears to have been satisfied prior to or in 1872 and 1873, as the German coinage in those two years amounted to 50,000,000*l.*; and there seems reason to believe that some portion of this gold was taken from hoards of that metal in France which were not previously in circulation.

Q. 1354.

It is also to be observed that while in the years 1866-70 the United States retained on an average 2,533,000*l.* a year out of their own home production, in the period from 1871 to 1875 they exported nearly 1,500,000*l.* in excess of the quantity produced in the country in those years.

The force of the United States demand did not begin to make itself felt until the middle of the year 1877; but since that date the use of gold in that country has increased very largely, the value of the metal absorbed during the ten years 1876-85, having been 112,589,600*l.*, as against 11,196,000*l.* in the 10 years immediately preceding.

There has also been a certain demand, though of a less important character, owing to the requirements of Italy, Holland, and the three Scandinavian countries.

On the whole there can be very little doubt that there has been a considerable increase in recent years in the use of gold for purposes of currency.

Silver.

183. Turning next to silver, it is very difficult to estimate the extent to which the use of this metal has diminished in Europe and America owing to currency changes.

No doubt the adoption of a gold standard in Germany diminished the demand for silver in that country; but on the other hand there has been a very large coinage of silver in the United States during the last 10 years, amounting to upwards of 300,000,000 dollars, while in the 10 years preceding 1873, the currency in that country was paper and but very little silver was coined.

When all the facts are taken into account it seems doubtful whether there has been on the whole any great diminution in the use of silver for currency purposes.

184. The silver placed on the market by Germany since 1873 is another element which must be taken into account. The amount actually sold and thus added to the supply available for the use of the world was not very large, but the mere fact of the sale and demonetisation even of the amount in question would probably tend to discredit silver, and produce an effect upon the market disproportionate to the amount which was actually sold, if the latter were regarded merely as an addition to the supply. The sales of the German silver, however, practically ceased in 1878 or 1879, and this influence has therefore probably ceased to operate directly since that date, though apprehensions of further supplies being thrown upon the market may have exercised a depressing effect.

185. It cannot be doubted that in the circumstances to which we have called attention, as marking the period since 1873, we see causes at work which would tend to render silver less valuable as compared with gold, and so to diminish its gold price. But it is very difficult to measure the force of this tendency, especially when we regard not merely the changes in the relative production and use of the two metals, but the ratio which the increased production of silver on the one hand, or the diminished production of gold on the other, bears to the existing stock of those metals respectively.

186. It must be borne in mind that in the case of other commodities the effect of changes in the supply and demand is both more marked and more immediate. These commodities are generally produced for the purpose of consumption at an early date or within a comparatively short period. The supply at any time available for the market, or capable of being placed on it at short notice, is therefore a very important element in the process by which its value is fixed.

The precious metals on the other hand are but to a slight extent consumed, and the available supply consists of the accumulations of previous years.

It follows, therefore, that in their case a diminution or an increase in the new supply is of less importance than in the case of consumable articles, and that an increase or diminution in demand has also a smaller effect. The important consideration with regard to them at any one moment is rather the relation between the total stock then in existence and the then existing demands upon it.

187. When we examine the marked contrast which the period prior to 1873 presents to later periods, and the extensive changes in the relative production of the two metals which took place during the earlier period, it seems impossible to conclude that the circumstances connected with the supply sufficiently account for the altered conditions in the relative value of silver and gold since that date.

In the 40 years between 1833 and 1873, which include the period of the great gold discoveries, and the consequent increase in the available supply of that metal, but little change in the gold price of silver can be observed.

In the 10 years from 1831 to 1840, the proportion which the value of the silver produced bore to that of the gold was as 1·86 to 1. In the five years from 1851 to 1855, the proportion had fallen to ·288 to 1. Yet the market value of silver only varied between 15·75 to 1 in the former period, and 15·41 to 1 in the latter.

On the other hand, if we compare the five years 1871 to 1875 with the five years 1876 to 1880, we find that the proportion borne by the production of silver to that of gold was ·710 to 1 in the first period, and ·794 to 1 in the latter. But this change, almost insignificant when compared with those to which we have called attention above, coincided with a fall in the market value from 15·97 to 1 to 17·81 to 1.

188. Examining the figures a little more closely, and taking the statistics of production for each year which were laid before the Select Committee of the House of Commons on the Depreciation of Silver by Sir Hector Hay in 1876, we find that from 1861 to 1872 the annual production of gold had been diminishing from 22,760,000*l.* to 19,910,000*l.*, while that of silver had increased from 8,540,000*l.* to 13,050,000*l.*, and that this important change took place without any great variation in the gold price of silver. The average price of bar silver in the former year was 60½*d.* and in the latter 60¼*d.*

It is true that since 1872 the changes in the demand for the two metals have taken place which we have dwelt upon above; but an increase or diminution of demand would not be likely by itself to have a greater effect upon the relative value of the two metals than an increase or diminution of supply to the same extent.

Precious metals not affected by changes in supply and demand in the same way as other commodities.

Reasons for thinking that changes in supply are insufficient to account for divergence in value of gold and silver.

189. Looking, then, to the vast changes which occurred prior to 1873 in the relative production of the two metals without any corresponding disturbance in their market value, it appears to us difficult to resist the conclusion that some influence was then at work tending to steady the price of silver, and to keep the ratio which it bore to gold approximately stable.

Marked  
difference in  
fluctuations  
in recent  
years.

190. There is another fact, to which we have already drawn attention, pointing decidedly in the same direction. Prior to 1873 the fluctuations in the price of silver were gradual in their character, and ranged within very narrow limits.

Thus in the year 1872 the margin between the highest and lowest quotations in each month was as under:—

					d.	per oz.
First report, Appendix I.	January	-	-	-	-	$\frac{1}{8}$
	February	-	-	-	-	$\frac{1}{8}$
	March	-	-	-	-	$\frac{1}{8}$
	April	-	-	-	-	$\frac{1}{8}$
	May	-	-	-	-	$\frac{1}{8}$
	June	-	-	-	-	$\frac{1}{8}$
	July	-	-	-	-	$\frac{1}{8}$
	August	-	-	-	-	$\frac{1}{8}$
	September	-	-	-	-	$\frac{1}{8}$
	October	-	-	-	-	$\frac{1}{8}$
	November	-	-	-	-	$\frac{1}{8}$
	December	-	-	-	-	$\frac{1}{8}$

While in the year 1886 the corresponding figures are as follows:—

					d.	per oz.
	January	-	-	-	-	$\frac{9}{16}$
	February	-	-	-	-	$\frac{7}{16}$
	March	-	-	-	-	$\frac{3}{16}$
	April	-	-	-	-	$\frac{11}{16}$
	May	-	-	-	-	$1\frac{1}{4}$
	June	-	-	-	-	$\frac{11}{16}$
	July	-	-	-	-	$2\frac{9}{16}$
	August	-	-	-	-	$\frac{6}{8}$
	September	-	-	-	-	$2\frac{3}{4}$
	October	-	-	-	-	$1\frac{3}{8}$
	November	-	-	-	-	$1\frac{1}{8}$
	December	-	-	-	-	$1\frac{2}{8}$

It will be observed that the maximum variation in the former year was  $\frac{1}{8}d.$ , and the average not quite  $\frac{1}{8}d.$ , while in the latter year the maximum was  $2\frac{9}{16}d.$ , and the average nearly  $1\frac{1}{8}d.$  It has not been, and indeed hardly could be, suggested that this difference can be accounted for by changes in the relative production or actual use of the two metals.

191. The explanation commonly offered of these constant variations in the silver market is that the rise or depression of the price of silver depends upon the briskness or slackness of the demand for the purpose of remittance to silver-using countries, and that the price is largely affected by the amount of the bills sold from time to time by the Secretary of State for India in Council.

But these causes were, as far as can be seen, operating prior to 1873, as well as subsequent to that date, and yet the silver market did not display the sensitiveness to these influences from day to day and month to month which it now does.

Effect of the  
existence of  
the bimetallic  
law in the  
Latin Union.

192. These considerations seem to suggest the existence of some steadying influence in former periods, which has now been removed, and which has left the silver market subject to the free influence of causes, the full effect of which was previously kept in check.

The question therefore forces itself upon us:—Is there any other circumstance calculated to affect the relation of silver to gold which distinguishes the later period from the earlier?

Now undoubtedly, the date which forms the dividing line between an epoch of approximate fixity in the relative value of gold and silver and one of marked instability, is the year when the bimetallic system which had previously been in force in the Latin Union ceased to be in full operation; and we are irresistibly led to the conclusion that

the operation of that system, established as it was in countries the population and commerce of which were considerable, exerted a material influence upon the relative value of the two metals.

So long as that system was in force we think that, notwithstanding the changes in the production and use of the precious metals, it kept the market price of silver approximately steady at the ratio fixed by law between them, namely,  $15\frac{1}{2}$  to 1.

When once the conclusion is arrived at that this was the case, the circumstances on which we have dwelt as characterising the period since 1873 appear amply sufficient to account for the fall in the price of silver, tending as they all do in that direction; and the fact that on any particular day the supply of silver and of Council bills may be large while the need for remittances is small, and *vice versa*, would explain the constant fluctuations in the price of silver which have manifested themselves in recent years.

193. Nor does it appear to us *a priori* unreasonable to suppose that the existence in the Latin Union of a bimetallic system with a ratio of  $15\frac{1}{2}$  to 1 fixed between the two metals should have been capable of keeping the market price of silver steady at approximately that ratio.

The view that it could only affect the market price to the extent to which there was a demand for it for currency purposes in the Latin Union, or to which it was actually taken to the mints of those countries is, we think, fallacious.

The fact that the owner of silver could, in the last resort, take it to those mints and have it converted into coin which would purchase commodities at the ratio of  $15\frac{1}{2}$  of silver to one of gold, would, in our opinion, be likely to affect the price of silver in the market generally, whoever the purchaser and for whatever country it was destined. It would enable the seller to stand out for a price approximating to the legal ratio and would tend to keep the market steady at about that point.

194. It has been urged that during the earlier of the two periods which we have been contrasting, the conditions which existed from time to time were favourable to the maintenance of the legal ratio; that the great influx of gold towards the middle of this century found France with a large stock of silver, and that this silver, owing to exceptional circumstances, had a ready outlet to India.

But we do not think this affords an adequate solution of the problem without taking into account the existence of the bimetallic system. It may be true that the circumstances referred to were conditions which helped to make the bimetallic system operative. But, as we have observed before, circumstances and conditions of a like nature have been more or less operative both before and since 1873, and yet the effect on the relative value of the two metals has been very different.

195. It is said that the altered circumstances since 1873 would have rendered it impossible to maintain silver at the former ratio, even if the Latin Union had not abandoned the free mintage of silver, and that sooner or later the bimetallic system must have broken down and its steadying influence have ceased.

To estimate the force of causes without adequate experience of their effects in the past is a matter of extreme difficulty. But even if it were true that the Latin Union would not have been able down to the present time to preserve silver from falling below the legal ratio, this does not prove that the views which we have propounded as to the causes of the former stability of the gold price of silver and of its present unstable condition, are incorrect.

Whether silver would ultimately have fallen to its present price, and whether the Latin Union could now, by reversing its action and re-opening its mints, restore silver to its former gold value, and re-establish the former condition of stability, are questions very material to another part of the case, but the determination of which is not essential to the particular point with which we are now dealing.

196. It is also said that such effect as the bimetallic system has had in keeping the relative value of gold and silver steady was due to the accidental circumstance that, at the time of the gold discoveries, France was saturated with the appreciating metal silver; and that if the discoveries had been of silver and not of gold, France, having no gold to part with, could not have kept down the silver price of gold or have kept up the gold price of silver. To this our answer is that we are for the moment concerned with what has actually happened, and that for our present purpose we need not consider what might have happened had the circumstances been different.

Question whether the bimetallic system could have been maintained since 1873.

Divergence in value of gold and silver cannot be accounted for by appreciation of gold.

197. It has been suggested that the fall in the price of silver is to be accounted for exclusively by the appreciation of gold in relation to all commodities, arising from increased demand for that metal, or, as it is put by some advocates of the view owing to a contraction of the currency which has caused all prices to fall.

We shall have to discuss hereafter the questions of the suggested appreciation of gold and contraction of the currency; but dealing with them now only as an explanation of the fall and fluctuations in the gold price of silver, we have no hesitation in saying that, in our opinion, they cannot be regarded as of themselves adequate to account for the phenomena we have witnessed.

If gold be now appreciated, in relation to commodities generally, owing to diminished production, it is equally clear that it was depreciated in relation to commodities at the time of the large gold discoveries of 30 or 40 years ago; and yet the gold price of silver did not then rise with that of many other commodities. Why then, even assuming the appreciation of gold in relation to commodities generally, should the reverse process take place now, unless some condition existed then which is absent now?

If the active maintenance of the legal ratio in the Latin Union had the effect which we are disposed to attribute to it, the difference between the two epochs would, even on the assumption with which we are now dealing, be accounted for.

Summary of conclusions.

198. To sum up our conclusions on this part of the case, we are of opinion that the true explanation of the phenomena which we are directed to investigate, is to be found in a combination of causes and cannot be attributed to any one cause alone. The action of the Latin Union in 1873 broke the link between silver and gold which had kept the price of the former, as measured by the latter, constant at about the legal ratio; and when this link was broken, the silver market was open to the influence of all the factors which go to affect the price of a commodity. These factors happen since 1873 to have operated in the direction of a fall in the gold price of that metal, and the frequent fluctuations in its value are accounted for by the fact that the market has become fully sensitive to the other influences to which we have called attention above.

199. Down to this point we have been able to maintain an agreement among ourselves as to the terms of our Report; but in considering our conclusions on the question to what extent the fall in the gold price of silver has taken the form of an appreciation of gold or a depreciation of silver, as well as on the remaining questions submitted to us, such a divergence of opinion manifested itself that we have found ourselves under the necessity of stating our opinions in the separate documents which follow.

Before, however, we pass from our statement of the conclusions upon which we are agreed, we desire to express the sense which we all entertain of the high value of the services rendered to the Commission by the secretary, Mr. G. H. Murray. His zeal and ability have greatly assisted us in our labours.

All which we humbly submit for Your Majesty's gracious consideration.

(Signed)      HERSCHELL  
                   LOUIS MALLET.  
                   ARTHUR JAMES BALFOUR.  
                   HENRY CHAPLIN.  
                   C. W. FREMANTLE.  
                   JOHN LUBBOCK.  
                   T. H. FARRER.  
                   W. H. HOULDSWORTH.  
                   D. BARBOUR.  
                   J. W. BIRCH.  
                   LEONARD H. COURTNEY.  
                   SAMUEL MONTAGU.

GEO. H. MURRAY, *Secretary*.  
 October 1888.

## PART II.

1. The question whether the change in the relative value of gold and silver is due rather to appreciation of gold or depreciation of silver is so much involved in the consideration of the fall of prices, which is said to be connected with that changed relation and with the circumstances which have led to it, that in order to avoid repetition we have thought it convenient to defer the discussion of this question to a later part of the report. Our conclusions with regard to it will be found below in §§ 47 and 71.

CONCLUSIONS AS TO THE EVILS SAID TO HAVE RESULTED FROM THE CHANGES IN THE  
RELATIVE VALUE OF THE PRECIOUS METALS.

2. We will now proceed to consider the evils which are said to have resulted from the recent changes in the relative value of the two metals.

We have already drawn attention to the fact that the phenomena observable have been, that constant fluctuations in the relative value of gold and silver have taken the place of approximate fixity, and that there has been on the whole a considerable fall in the gold price of silver.

3. It is alleged that both the fluctuations and the fall have been followed by serious and embarrassing consequences.

In dealing with this part of the case we shall, as far as possible, treat separately the evils which are traced to the fluctuating character of the relation between the two metals and those which are alleged to have their origin in the fall in the gold price of silver, or in circumstances which have affected or are affecting the two metals and their relation to one another. It is not easy, and indeed not always possible, to preserve this distinction; as the consequences alleged to flow from these causes touch at so many points and are so closely connected.

## I. EVILS RESULTING FROM FLUCTUATIONS.

4. We will consider first the effects of the change from a fixed to a fluctuating relation between the two precious metals; for we are here on less debateable ground, and the views presented to us differ rather in their estimate of the extent and importance of the effects produced, than as to the existence of the effects.

5. The most obvious of these is the inconvenience which arises in the exchange between gold-using and silver-using countries.

This is no doubt reduced to a minimum by the action of exchange banks and telegraphic transfers. Where the currents of trade in opposite directions between the two countries are more or less constant and uniform, the risk to the exchange banks in undertaking these transactions is but small, however frequent the fluctuations. They are therefore able and willing to undertake them without any very burdensome cost to the trader.

Difficulties of exchange between gold and silver using countries. Extent to which they can be avoided.

Where, however, the counter currents of trade are less constant, as is said to be the case between this country and China, the burden imposed on commerce is no doubt at times somewhat greater.

6. It must be borne in mind that the fluctuations in exchange, even in a single day, have of late years often been considerable, and inasmuch as it is not always possible to close the transaction on both sides, and make the settlement of the exchange simultaneously, some risk to the merchant is at times inevitable.

Besides this it is said that the exchange difficulty tends to limit trade, and to restrict it to those cases in which a contract of sale and purchase can be made in the two countries at the same time.

It has been stated that in the trade between Chili and England, there has been a tendency, owing to exchange difficulties, to diminish trading upon credit, and to substitute cash transactions, and that this has the effect of contracting the commerce between the countries within narrower limits than would otherwise be the case.

Chili has a depreciated paper currency, but the fact is used as an illustration of the commercial disadvantages arising generally from fluctuations in exchange between gold-using countries and those possessing a currency which is depreciating in relation to that metal.



7. It must also be remembered that there are certain risks which arise from, or are aggravated by, the fluctuations of exchange, and against which a merchant cannot practically protect himself by any of the expedients to which we have referred.

Obstacles, for example, sometimes arise to prevent a contract being carried out at the appointed time; and there are cases in which this would be of comparatively little moment if the exchange were stable, but in which the merchant may be subjected to a serious loss if, with a heavy fall of exchange in the meantime, the purchaser is enabled to refuse to receive the goods.

Extent to which trade has been affected by these difficulties.

8. Some witnesses representing the trade of Lancashire have deposed that when a heavy fall in the exchange takes place the trade in cotton goods is sometimes brought for a short time almost to a standstill.

Statistics do not appear to afford evidence in support of the view that trade between this country and India has been diminished from this cause.

The exports to India have increased at a greater rate than those to gold-using countries. This statement is, however, open to the criticism that this expansion of trade is partly due to obvious causes, such as the development of railways and the removal of import duties in India, and the operation of protective tariffs in certain foreign countries, and that it would have been greater still if the exchange had remained steady.

It must further be admitted that there has not been a similar expansion of the exports from this country to China.

It must be borne in mind, however, that this is to some extent accounted for by the growing competition of Indian exports of cotton goods to China, and of Indian with Chinese tea in the English markets, which would both tend to diminish the export of goods from this country to China. And it must be noted that there has been of late a large increase in our exports of cotton goods to that country.

9. However much opinions may differ as to the extent of the evil arising from the increased difficulty which a fluctuating exchange interposes, we do not think its reality is open to question.

We are not ourselves disposed to regard it as having hitherto limited or burdened to any very serious extent the commerce between this country and those having a silver standard. Nevertheless everything which hampers complete freedom of commercial intercourse between two countries, or which imposes on it any additional burden, is undoubtedly an evil to be avoided or removed if possible.

10. If, therefore, a remedy could be devised to accomplish this end, without involving the risk of other disadvantages, there cannot be two opinions that it would be worth while to apply such a remedy.

Whether it is serious enough, taken by itself, to render it advisable to apply any remedy from which some risk is inseparable must depend on the nature of the particular remedy, and our estimate of the severity of the risks it would entail, as compared with the gravity of the existing evil. Our views upon this point will appear when we come to discuss the expediency of adopting the remedies which have been suggested.

Variations in exchange tend to promote trade between countries having the same standard to the exclusion of others,

11. Two other evils of a general character are also attributed to fluctuations in the gold value of silver, though, as regards one of these, the prejudicial effects are said to have affected gold-using countries more particularly.

It is alleged that an unstable exchange between gold and silver has tended to foster trade between countries having the same standard to the prejudice of those having a different standard.

12. It cannot be denied that the trade between two countries having the same standard (or, what is practically the same thing, having different standards maintaining a stable relation to each other) is free from an obstacle, and to some extent a burden, to which trade is subject between countries having different standards varying in their relation to one another; and it may reasonably be assumed that whenever international trade is simpler in its operations and less burdened, it will have a tendency on that account to make better progress, and this to the detriment, it may be, of countries less favourably circumstanced.

It is alleged that practical proof of this is afforded by the growth of the trade in cotton yarns between India on the one hand, and China and Japan on the other, in recent years as compared with our trade in that commodity with the latter countries.

This result is however attributed, even by those who attach weight to the argument, more to the fact that the fluctuations have on the whole been downward in their direction than to the mere fluctuations themselves.

We will therefore defer the consideration of this point until a later period; merely observing that though the difficulty of an unstable exchange may have a tendency to foster trade between countries having the same standard, as against trade in the same commodities between countries whose standards have not a fixed relation, we do not think, all other things being equal, that its effect in this direction is likely to be very considerable.

It must be noted that alterations in the supply of one or other of the precious metals which, when no bimetallic link exists between them, cause or intensify fluctuations of exchange between gold and silver-using countries, might, if the relations between the metals were fixed, operate, though by a process slower and less severe, upon prices, and thus affect contracts or engagements to be performed or fulfilled at a future time.

13. The second evil upon which stress has been laid is that a fluctuating exchange is alleged to discourage investment by gold-using countries in silver-using countries, from which both sustain injury, the gold-using country losing an outlet for its surplus capital, and the silver-using country being deprived of that development which the employment there of such capital would produce.

and to discourage investment of capital in silver-using countries.

There are many, it is said, who are unwilling to invest money except when it yields a fixed or approximately fixed return, and, owing to the apprehensions of fluctuations in the relative value of gold and silver, this class of persons do not invest in India or China.

This again is closely connected, by those who urge the point, with the circumstance that the fall in the gold value of silver aggravates the evil, and renders the person having capital to employ less willing to invest it there. It is said too that the Government of India are unwilling for the same reason to undertake public works to the extent to which they otherwise would.

We think there is truth in the view thus presented, though it is very difficult to gauge the extent to which a real influence is exerted in hindering investment in silver-using countries; especially having regard to the fact that English capital has been invested in the Indian mills whose competition is complained of, and that a large amount of English capital has been and is being invested in South America.

14. In addition to the evils of a general character to which we have drawn attention, there is one specially affecting the Government of India which deserves the most careful attention.

Embarrassment caused to the Government of India.

We allude to the effect upon the Indian finances of the obligation of the Government of that country to pay every year the interest on their gold debt, as well as to meet other fixed gold charges, while all their taxes are imposed and received in silver.

15. It is obvious that a fluctuating exchange must in consequence be the cause of serious embarrassment to the financial policy of the Indian Government. The estimates of receipts and expenditure may be prepared with the utmost care and accuracy, and yet an estimated surplus may become a deficit by a sudden fall in the exchange.

So long as these fluctuations continue it is impossible to count in any year upon a financial equilibrium; and the peculiar circumstances of our position in India render it specially difficult to make constant changes in the taxation imposed upon the people. The difficulty is of course intensified when the ultimate or general tendency of the exchange is continuously downwards, and the revenue can only be made to balance the expenditure by increased taxation, which it is very difficult to devise.

Even if the assumption be well founded that the change is due to a fall in the value of silver, and that, the taxes in India being payable in rupees, a fall in the value of silver is in fact a diminution of taxation, and is therefore a relief to the people of India, it nevertheless constitutes a difficulty for the Government itself.

16. Putting aside the difficulty which has already arisen from a fall in the past, there can be no doubt that the uncertainty created by the want of a fixed ratio, the apprehension of a further fall, and the impossibility of determining to what point that fall may reach, do make the task of the Government of India a very difficult one, and constitute a real and very serious evil.

We have been much impressed by the views which have been urged upon us by the Government of India. We understand that they regard the re-establishment of a fixity of ratio between gold and silver as of even greater moment than the restoration of silver to its former value as compared with gold.

We fully share their view as to the great importance of the subject, and the great advantage that would result to the Indian Government, with whose safe administration

of the affairs of that great Empire the interests of this country are so intimately connected, if a stable ratio between gold and silver could again be relied upon.

## II. EVILS CONNECTED WITH THE CHANGED RELATION OF SILVER TO GOLD.

17. We have next to consider the evils attributed to or connected with the altered relation of silver and gold, other than those which result from fluctuations in exchange between gold and silver using countries.

Evils connected with fall in gold price of silver.

These evils are, first, the effects upon the commerce of the country, and the relation of debtor and creditor, alleged to be due to the fall in the price of commodities; and secondly, the special difficulties which have arisen in connexion with the finances of India, owing to the fall in the gold price of silver.

18. Two explanations have been offered of the connection between the fall in the price of commodities and the altered relation of gold and silver.

One is that which attributes the fall in the price of commodities directly to the fall in the gold price of silver; the other is that which connects the fall with the appreciation of gold, which, it is suggested, has arisen in recent years from the diminished production of that metal, and its increased use owing to the currency changes which have occurred during that period, as well as to an increase of demand for it caused by, and indirectly due to, the results of those changes.

Fall in gold prices due to appreciation of gold.

19. We will deal first with the latter point.

There can be no question that the gold price of many, and probably of most, commodities has fallen during the last 15 years. In relation to these commodities it may, no doubt without inaccuracy, be said that gold has appreciated. That is another mode of expressing the fact that their price is lower. It may, however, also without inaccuracy, be said that in relation to gold these commodities have depreciated. Which is the more accurate expression in any particular case will depend upon whether the altered relation of the commodity to gold has arisen from some change which has affected gold, such as a diminished supply, or some increase of demand owing to its use for purposes for which it was not formerly employed, or whether this altered relation is connected with a change affecting the commodity, such as increased supply or diminished demand. It may, however, have arisen partly from one and partly from the other, so that the true explanation of the fall in price may be that there has been both appreciation of gold and depreciation of the commodity.

Extent to which it falls within the scope of this inquiry.

20. It is only in so far as the fall in price is due to circumstances affecting the standard of value that it comes within the scope of our inquiry. A fall in the price of commodities which results from an increase in their supply or a diminution in the cost of their production or transit does not appear to us to be of itself an evil, and if it were so it is one foreign to the subject which is referred to us for consideration and report.

Absolute stability of the standard unattainable.

21. There are indeed some who think that in an ideally perfect system of currency, whatever may have been the cause of an alteration in the relation of the standard to commodities, the standard ought to adjust itself to this variation, so that prices should remain constant.

They point out that otherwise contracts to pay money at a future date are affected to the prejudice either of the creditor or the debtor by the change in the purchasing power of the standard; that the obligation, which ought to remain constant, varies in reality with its greater or less purchasing power.

It may be questioned whether the strict idea would not require that the constancy of obligation aimed at should be to render the same labour rather than to transfer the same commodities, so that the sacrifice of toil in repaying an obligation should be the same as that which was involved in its creation; but apart from this abstract criticism of an abstract theory there are practical difficulties opposing it.

The view presented would not be without its force if all commodities and services changed in their relation to the standard simultaneously and *pari passu*, but this never has been, and practically never can be, the case, where the change arises from circumstances operating upon the different commodities themselves.

Even if it were practicable to adjust the standard in correspondence with an increase in the supply of any class of commodities or services, the result would be to alter its relation to things not comprised within that class the supply of which either had not been increased, or not to the same extent, and thus to bring about the very evil which it was sought to remedy.

In our opinion, therefore, we must dismiss this theory from consideration, and devote our attention exclusively to the question how far the fall in the price of commodities is due to currency changes.

22. Reliance is placed, by those who contend that the lower prices which now prevail are due to the appreciation of gold, upon the index numbers which have been prepared by different authorities, to indicate the general course of prices.

Evidence  
of index  
numbers.

We have already drawn attention in §§ 60, 61 to the reasons which enforce caution in the use of this method of generalisation; but we may in addition draw attention to the fact that, taking Dr. Soetbeef's table, the index numbers for the years between 1874 and 1883 were, with the exception of that of 1879, in each case as high as, or higher than, those of the years 1858 to 1861 inclusive, and that the number for each of the years 1880, 1882, and 1883 differed by less than one per cent. from those of the years 1865, 1868, 1869, and 1870.

Report,  
Part I.

If, however, we turn from these general index numbers and examine the index numbers of the several commodities which have been taken into account in arriving at the general index number for the year, it cannot be doubted that a fall has taken place, especially in the most recent years, in the majority of the commodities in common use, and that in some cases the fall has been very heavy.

23. The index numbers, as has been observed, take no account of the price of labour or services, or of the rent of houses or land.

Rate of  
wages.

The facts with regard to wages, even in this country, are very difficult to ascertain.

The report of the Royal Commission on the Depression of Trade (1886) in referring to the last 20 years states (para. 83) that, while during that period wages have risen, profits have fallen, and (para. 81) that "there is no feature in the situation which the Commissioners have been called to examine so satisfactory as the immense improvement which has taken place in the condition of the working classes during the last 20 years."

These conclusions, formed after a long and patient inquiry, though they deal with real rather than nominal wages, and relate to a period dating back to 1866, are scarcely consistent with the conclusion that the money wages of the labouring classes in general have been seriously diminished by the monetary changes which took place in and subsequently to 1873.

Since the date of the report in question there has in this country no doubt been further depression, especially in the employment of agricultural labour, and this depression has tended to depress other branches of the labour market.

But although nominal wages have undoubtedly fallen in certain departments of industry, we have no evidence to show that they are generally lower than they were 15 years ago; and the reports of the Labour Correspondent of the Board of Trade show that during the past 12 months there has been a steady improvement in the skilled labour market, both as regards the rate of wages and the numbers employed.

We have no statistics of retail prices, but there can be little doubt that though they have fallen considerably, the fall has not been so great as in the case of wholesale prices. This again points to the fact that wages have not fallen to anything like the same extent as the wholesale price of commodities, for the wages of labour are an important, if not the most important, element in determining the difference between wholesale and retail prices.

Retail  
prices.

There does not appear to be any evidence that the salaries of clerks and others, outside what may be termed the wage-earning classes proper, have decreased, and although some house rents have fallen, it seems questionable whether, except as regards the more expensive class of houses which are inhabited by the wealthy, there has been any general diminution of house rent.

Salaries  
and house  
rent.

24. At the outset of our investigation we are confronted by the fact that the fall in prices has been neither universal nor uniform. It will be seen that it did not commence as regards all commodities, even approximately at the same time, nor has it proceeded at the same rate or to the same extent.

Fall neither  
universal nor  
uniform, and  
cannot there-  
fore be  
entirely due  
to apprecia-  
tion of the  
standard.

A fall of prices arising from the appreciation of gold alone must, other things remaining the same, ultimately be both universal and uniform.

But it has been pointed out by some economists, and notably by Professor Cairnes, that alterations of price due to a change in the standard (he was speaking of the depreciation of gold after the great gold discoveries) do not and are not to be expected to affect all commodities at the same time. In the case of the depreciation of gold arising from the gold discoveries, a most potent factor in the raising of prices was

found to be the rise in wages which was brought about, with its consequent effect upon the prices of commodities in the production of which labour was one of the elements. Reasons were also suggested why the rise of price was not uniform in the case of all commodities. It was pointed out that the price of animal would be affected at an earlier date than that of vegetable products, inasmuch as the latter could be increased in quantity to meet an increased demand with greater rapidity than the former.

In the case of the suggested appreciation of gold, which we are now considering, the fall in the price of commodities has certainly not come about from a fall in the cost of labour, and the various products have not been affected in the same order.

We have had no sufficient explanation offered of the phenomena which have manifested themselves, assuming them to be entirely due to appreciation of the standard. It has not been shown why its effect upon the various commodities has been so different in point of time, and of extent; and a careful survey of the varying prices of commodities at once suggests that, even if there has been an appreciation of the standard, some other causes must have been at work, affecting particular commodities, so as to depreciate them in relation to gold.

Report,  
Part I., § 61  
(a.)

We have in § 61 of the foregoing report drawn attention to the fact that if the period from 1881 to 1885 is compared with the period 1866 to 1870, which shortly preceded the occurrences alleged to have resulted in the appreciation of gold, the classes which include animal food and fruits, oil and wine, rose in price, whilst colonial produce remained stationary, a fall being exhibited in agricultural and mineral produce and textile materials. Again turning to Mr. Sauerbeck's classification of his index numbers we find that while, with the exception of the years 1877 and 1878, the fall in the price of vegetable food products was continuous from 1873 to 1885, and in the latter year was very rapid, the price of animal food was, with the exception of 1879, as high or higher in every year between 1872 and 1883 than in 1872, and the fall has only manifested itself since the latter date, and that not to an extent at all comparable to the fall in the price of vegetable food.

There has recently been a rise in the price of many important commodities, and also in freights, which certainly receives no adequate explanation from any change in the supply of or demand for gold. It cannot be contended that there has been, of late, anything to cause a substantial depreciation of that metal.

Other causes  
which have  
operated to  
produce a  
fall.

25. We do not think that the causes, other than those relating to the standard, which have been operating to produce a fall of price, are far to seek. When we examine the case of individual commodities we see factors at work which fully account for a fall in their price, even if the standard had remained, so far as it was itself concerned, stable.

Take for example the case of wheat. The increase in the supply during recent years in many parts of the world, but especially on the American continent and in India, has been enormous.

This has been due in a great measure to the fact that vast territories, consisting in some cases of virgin soil, have been opened up by the construction of railways, and become the means of creating supplies largely in excess of the needs of those engaged in their production.

In addition to this the cost of transit from these countries to other parts of the world has very much diminished. The development of railways to which we have alluded has proceeded with striking rapidity during the last 15 years,\* especially in America and India, and in the latter case the opening of the Suez Canal has exercised a great influence in the same direction.

The diminished cost of transport is also partly due to increased competition for the carrying of goods. Shipbuilding has at times proceeded at a greater rate than the increase of the commodities to be carried. Not only so, but the same quantity of wheat can now be carried, owing to improvements in machinery, with less expenditure of fuel and the employment of considerably less labour.

All these things contribute to enable the markets of the world to be stocked at much less cost, and the wheat thus to be sold at a lower price.

26. What has been said with regard to wheat may also be said in varying degrees with reference to many other commodities. The total output of coal and mineral ores, for example, has exhibited a remarkable increase, and in the case of metals,

\* Down to the end of 1873 about 70,250 miles of railway had been constructed in the United States. From a table in the *Economist* of Jan. 21, 1888, it appears that during the last 14 years, ending 1887, no less than 80,300 miles have been added. In India there were about 5,400 miles of railway in March 1873, whilst on the 31st of March 1887 there were no less than 13,390, and, on the 31st of March 1888, 14,383 miles.

invention has conduced enormously to economy in the cost of production. It is true that the output of coal in this country has in the last two or three years been arrested or diminished; but this may be attributable to increased economy in the use of coal for industrial purposes, and to the restrictions placed by many foreign countries upon the importation of coal and iron (which largely affects coal); and these causes have tended to aggravate the decline in prices.

It has been said, and it may be with truth, that the development of machinery was as great in the 15 or 20 years which preceded 1874, as in the subsequent years, and that steam transport had been also largely developed in the earlier period. But not only has the actual extension of railways and the cheapening of land and sea freight been greater in the subsequent years, but the effect of railways which had been previously made has been more felt.

As above noticed, large new districts of great natural fertility, and rich in minerals, have been opened up, and consequently civilized countries have been furnished with an unprecedented quantity of raw vegetable and mineral products.

The rise in the price of raw products during the period preceding 1875, exceeded the average rise of the prices of all commodities, while the fall in the prices of raw products since 1875 has been above the average fall. Comparing therefore the earlier with the later period, the lower cost of manufacture was in the earlier period counteracted by the higher cost of raw materials, whilst in the later period, not only was this not the case, but the cost of the raw materials has decreased simultaneously with the diminished cost of manufacture.

27. It may be well here to point out that the fall in wages which has occurred, as we have stated, in certain industries in this country is, in some cases at least, largely accounted for by the fall in the price of the product of labour.

Take for example agricultural wages. There can be no doubt that, even if other circumstances were equal, the wheat growers of this country compete at a great disadvantage with those whose conditions of soil and climate are better; and when the price of wheat falls, and their margin of profit is diminished, or even disappears, they resort necessarily to an economy in their expenditure upon labour, and inasmuch as some land goes out of wheat cultivation altogether, and the labour market becomes overstocked, there is the less difficulty in their forcing wages down.

It may be noted too that this again would re-act upon prices, especially upon the prices of some kinds of food and textile fabrics used for clothing. The diminution of wages means a diminution in the purchasing power of the wage-earning classes, and therefore operates in this direction.

28. Other causes which have contributed to the fall of prices are referred to in § 61 (c). To these we may add the increasing tendency in late years to do business in a more direct manner than formerly, and to dispense with the services of middlemen and intermediate agencies of all kinds, thus effecting great economies in the cost of distribution. Report,  
Part I.

Another cause, too, which has tended to lower certain prices in the open markets from which the index numbers of prices are taken, has been the increase in protective tariffs. Those tariffs by enabling manufacturers to demand high prices at home, have, in so doing, enabled them to throw their productions at an unnaturally low price upon foreign markets. In the case of bounties, *e.g.*, those on sugar, the operation of protection upon prices has been more direct; and even in protected countries, while the first effect of protection has been to raise prices, the ultimate effect has been in many cases to produce a glut and make it difficult for the protected industries to get rid of their stocks.

29. It is asserted by some that if the circumstances affecting each commodity the price of which has fallen were separately considered, the fall which has taken place would be amply accounted for.

We do not think it necessary to pursue the examination into the case of each commodity the price of which has been depressed in recent years. It will be sufficient for the moment to say that it can hardly be disputed that causes altogether apart from the currency have unquestionably been at work, tending to diminish prices.

We may refer to the extraordinary development of the productive and industrial resources of the United States which has taken place since the conclusion of the civil war. The cessation of that struggle set free the energies of the people, and enabled them to devote themselves without impediment to increasing the productive and industrial resources of their country.



We may add, too, that, as compared with previous periods, there has been a remarkable freedom from the absorption of the people of the continent of Europe in operations of war. Their energies have thus been turned instead to industrial and commercial pursuits, which has led to an increase in their power of production.

30. It is argued that a fall in the price of one article arising from the increased or cheapened production of that article, would be followed by a rise in the price of other articles, since those who save money in one direction have more to spend on other commodities.

But we do not think this would necessarily be the case to any considerable extent. When a commodity becomes cheaper it may fall within the reach of some who were unable to procure it at all before; and to a far greater extent there is likely to be an increased consumption on the part of those who were obliged to be content before with a smaller quantity. Many, therefore, may spend on the article, cheaper though it be, as much as they did before, and have no more to spare for other commodities. Cheaper bread and tea and clothing, for example, have certainly led, on the part of the masses of the people, to increased consumption. If it be said that there are some whose needs were before fully supplied, their number would not be great in proportion to the whole population, and in their case the money set free would probably either result in accumulation or in an increased expenditure upon luxuries. And there seems reason to believe that of late years such accumulations, as well as expenditure upon luxuries, have increased.

But besides this, there can be no doubt that a fall in the price of one article often induces a fall in the price of another for which it may be substituted. Prices thus re-act on one another. And a simultaneous fall in the price of many important articles of consumption tends to check speculation and thus to cause a further and more general fall.

31. We ought also to notice that the years immediately preceding 1873 were a time of great speculative activity. The prices of some commodities, *e.g.*, coal and iron, rose rapidly to an abnormal height. And the large loans to foreign States during the period in question, though much of the money subscribed may have been intercepted by speculators, led to a considerable demand for materials for the construction of railways and other industrial undertakings. As soon as further loans were checked by doubts as to the security offered by the borrowing States, these demands naturally diminished or ceased.

Experience, too, shows that a period of excessive speculation is always followed by a period of exceptional depression. The observation, however, is a fair one, that in the present case the depression has lasted longer and been more severe than was to be anticipated from the experience of former occasions when depression has been the outcome of over-speculation.

Some articles have not fallen in price.

32. We may observe in passing that it may fairly be asked of those who deduce, from the evidence afforded by variations of price, the conclusion that the standard has appreciated, how they explain the fact that in the case of some articles there has been no fall of price at all. The onus would appear to be on them to show how it has come about that the price of these articles has, on their hypothesis, so greatly risen. We do not think any complete answer has been given to this inquiry.

Economies of gold have operated to counteract the fall of prices.

33. Those who maintain the view that there has been an appreciation of gold do not, however, limit themselves to the evidence afforded by the fall of prices with which we have been dealing. They assert that, owing to the diminished production of gold, and its extensive use in countries formerly having a silver currency, there must have been an appreciation of that metal.

But it must be remembered that, if these circumstances have been working in the direction of appreciation, there have been other influences operating in a contrary direction also at work.

We allude to the economies of gold which must have resulted from the development of the banking system which has taken place in France, and from the institution of a great clearing-house system in Germany, as well as from the extension in our own country of branch banks, and the great increase in the use of cheques in place of gold, especially for small amounts. The employment of postal orders has to some small extent operated in the same direction, and in a more important degree the use of telegraphic transfers. Economy of gold, too, has resulted through the use of the telegraph rendering the accumulation and transport at times unnecessary where, but for this, it must have taken place.

In connexion with this we may also mention the great diminution in the time necessary for the transport of gold from one part of the world to another, which enables the same amount of metal to do much more work. We believe, too, that there has been an increased use of securities for the purpose of discharging international indebtedness, thus contributing to the settlement of accounts without the necessity for the transmission of bullion.

It is difficult, and indeed impossible, to estimate the relative forces of these tendencies which have thus been acting in opposite directions; but they must both be borne in mind in considering the question whether there has been an appreciation of gold.

34. Those who assert that the economies of gold have not balanced the additional demands upon it, point also to the rise in prices which took place during and after the period of the great gold discoveries, and contend that the conditions being reversed, the reverse process has now taken place.

Comparison with effects of the great gold discoveries.

We have, however, already drawn attention to the consideration sometimes lost sight of, that there has been no diminution in the supply of the gold which exists for the use of the world. The stock of gold has not diminished, and indeed still increases, though the annual addition to the stock has somewhat diminished of late years.

This fact is of vital importance. Suppose for instance that the production of gold and of wheat were in any given year increased in the same ratio, say that they were both doubled. The result would be that the stock of wheat would be doubled or more; while that of gold on the other hand would only be fractionally greater. If then the wheat and the gold were compared with some third article, say, iron, of which the demand and supply had remained the same, it is evident that while the ratio of iron to gold would have undergone little change, that of iron to wheat would have greatly altered.

35. It is to be observed, further, that the fall of prices before the gold discoveries was not so great as might have been expected, if the volume of the standard metal had as direct an effect upon prices as has been suggested. The period of peace from 1820 to 1850 was marked by a great increase of population and a vast development of trade, and, consequently of the use of money, while the annual increment to the stock of gold was so small that one would have anticipated a far greater depression of prices than was actually manifested.

A similar observation may be made with regard to the movement of prices upwards which followed the great gold discoveries. When the circumstances which accompanied the latter are borne in mind, they amply account for a rise in prices, apart from the mere increase in the volume of the metal of which the currency consisted. The gold was discovered in distant and undeveloped countries, and obtained often in large amounts with little expenditure of labour. The men in those countries thus found themselves easily possessed of a commodity immediately exchangeable against all other commodities, and so creating an additional demand for the latter. They were willing to give much of the metal to supply their wants, and the price of labour and of commodities, many of which could only be obtained from a distance, rose very high. Multitudes, too, were attracted to the spot in the hope of acquiring wealth. Many industries were stimulated, speculation was rife, and all the elements which, other circumstances remaining the same, go to produce higher prices were at work.

36. We have now to consider the mode in which it is suggested that the appreciation has taken place; and here we enter upon an inquiry of extreme difficulty, namely, what is the nexus between prices and the metal which forms the standard of value. It cannot be questioned that an increase in the quantity of that metal which, as we have pointed out, is directly exchangeable against all commodities, increases the volume of purchasing power which is in the market seeking commodities, and so tends to raise prices.

Nexus between the level of prices and the standard of value.

We may observe, also, that a rise in the price of certain commodities may re-act upon other prices. Those who receive more for the commodities which they possess can afford to give more for those which others have to dispose of.

37. If no one would part with his property except in exchange for the standard metal, there can be no doubt that the effect of a material increase or diminution in its production would be in direct relation with such increase or diminution. In that case the proposition of the economists, that prices are determined by the ratio which

commodities bear to the money (using that term in its most limited sense) seeking commodities, would be strictly accurate. But with an elaborate system of banking and credit, such as exists more or less in all civilized countries, the problem becomes much more complex. It is not money only that men will take in exchange for their goods; indeed, the transactions which take place in this country in a single day probably exceed in amount the stock of money that exists in the country, and they are often settled with the employment of a very small amount of coin.

We have, of course, been using the term money as applicable only to coined metal, or metal which is available for immediate coinage.

38. It is admitted by all economists that the existence of the banking system has resulted in great economy in the use of money. The transfer, by means of cheques, of the right to the possession of gold has, to a vast extent, taken the place of the transfer of gold itself, and it cannot be doubted that every day the payments which are made by means of cheques exceed greatly the amount of gold which exists available to meet the cheques if every holder were to insist upon receiving the gold which he is entitled to claim.

The purchasing power of the people consists, it appears to us, not only of the actual gold which they possess, or of that which their bankers are possessed of and can immediately command, but, to use a popular expression, of the money which they have at their disposal at their bankers', which greatly exceeds the amount of gold which either they or their bankers could at any given time at once command. Indeed, this is an under-statement of the case, for the credit which customers can obtain from their bankers may have as potent an influence upon prices as their cash balances.

So long as those who possess commodities are as ready to take cheques for them as they would be to take gold, the balance which a man has, or can have, at his bankers' influences prices to the same extent as if he were possessed of that amount of gold.

Gold has come now to be much more a measure of the comparative value of commodities than an actual medium of exchange, although it still remains the basis of all transactions, and of course enough gold must be held by bankers to prevent the apprehension that it could not be obtained if required.

39. It may be that it was from losing sight of this fact that the anticipations of eminent economists, who predicted a much greater rise in prices as the result of the gold discoveries than was actually experienced, were not realised.

It is, indeed, said that although an extended system of credit effects an economy in the use of gold, the volume of credit bears an exact ratio to the volume of the metal on which it is based, so that if the amount held by bankers for their customers were now, say, ten times the amount of gold in their tills, or in the banking reserves, the addition of 1,000,000% of gold would at once add 10,000,000% to the amount of banking credit.

We cannot see that there is any evidence that this is true in point of fact, nor do we see that it would necessarily be the case. The cash balances held by bankers for their customers have greatly risen in recent years, while there seems reason to believe that the amount of gold held against them, even if it has increased, has not done so in the same proportion.

40. It is of course impossible to diminish beyond a certain point the amount of gold which bankers must hold or have at command, but so long as enough exists to sustain credit, it is difficult to see how it could produce any substantial effect upon prices at any rate, whether more or less were held.

This, of course, must be guarded by the qualification that an increase or diminution in the amount of gold exercises a direct influence upon the rate of discount, and a rise or fall in that rate tends immediately to affect the price of stock exchange and other securities, but we are disposed to think that it exercises a less direct and sensible effect on the price of commercial products.

41. How then does an expansion or contraction of the metallic currency affect prices?

The volume of the currency is certainly not one of the elements which parties consciously take into account in ordinary commercial transactions when fixing the price of sale and purchase.

Where then does it come into contact with and exert its influence upon prices? This is a question of extreme complexity and difficulty, and though various suggestions have been made, there is no common agreement upon the answer to be given to it.

42. One explanation propounded is that a diminution or increase in the supply of the standard metal affects prices directly in those less-developed countries where the transactions of commerce consist in the actual exchange of commodities for the metal itself, and that the prices in those countries re-act on prices elsewhere. Q. 3980.

Without disputing that this may be the case, we do not see any evidence of these conditions existing to an extent sufficient to produce any very sensible effect upon general prices.

43. Another explanation suggested is that when appreciation of gold is anticipated, the possessors of it are unwilling to invest in commodities, owing to the expectation that its appreciation will depress prices, and consequently employ their money instead in the purchase of securities bearing a gold interest which the appreciation of the standard will render increasingly valuable. This, it is said, tends of itself to depress the price of commodities. Q. 10,411.

It may be that these effects would be produced if the fact that the standard was likely to appreciate were so generally seen and realised as to induce the suggested action on a large scale. But we do not think there has been any general recognition of the fact that appreciation was probable or in progress, or that this has been consciously the basis of action to any material extent.

44. The most obvious mode in which the appreciation of gold operates upon prices is as pointed out in § 40, through the rate of discount. Any increase in the supply of gold to this country, unless used for industrial purposes, would flow ultimately to the Bank of England, and thus tend to lower the rate of discount, whilst a diminished supply would have the contrary tendency. And no doubt prices might be affected by these changes.

When, however, we compare the rate of discount during the period we are considering with that prevailing in former periods, we do not see any evidence that the depression of prices, which has distinguished recent years, was initiated by a high rate of discount arising from a scarcity of gold.

It has indeed been pointed out that the rate of discount from 1871 to 1874, which covered the period of the German demand for gold, was somewhat high, and it is suggested that we see in this both evidence of the appreciation of the metal and the first impulse towards lower prices.

But it is to be observed, in the first place, that the rate of discount during those years had its parallel, or was even higher, in previous epochs when it cannot be suggested that appreciation of the metal was the cause, and when no lasting depression of prices resulted. We may cite as examples the years 1855 to 1858, and 1863 to 1866. Secondly, the features which characterised the years from 1871 to 1874 were quite sufficient to account for a high rate of discount. It was a period of feverish speculation, when high prices were inducing men to embark largely in new enterprises. Added to this, the financial operations resulting from the Franco-German war and the payment of the war indemnity to Germany produced also, no doubt, an exceptional and very sensible effect upon the discount market.

45. But, in addition to these considerations, we must remark that those who maintain the theory that the low prices which have prevailed have resulted from the appreciation of gold, trace that appreciation as much or more to the United States demand than to the German.

It is certain that there was a greater diminution in the annual supply of that metal during the years of the United States demand than during the time when the German supply was procured; yet we fail to see any evidence of the appreciation of gold in the records of the rate of discount between 1878 and the present time. The rate has been both lower and less subject to fluctuations than before.

We fully admit that where the accumulations of capital are great, and speculative enterprise small, as is not unlikely to be the case with falling prices and a diminished margin of profits, however caused, a low rate of discount may be accounted for consistently with the fact that there has been some appreciation of the standard. But if there had been a serious scarcity of gold, which had caused prices to fall, we should have expected to see some marked indication of it in the state of the discount market sufficient to account, at all events, for the initial depression.

46. In summing up our observations on this head, we would observe that it is one upon which it seems scarcely possible to arrive at any certain conclusion. The causes which contribute to affect prices are so subtle, and the information which we possess so imperfect, that we can do no more than hazard a statement as approximately accurate.

No conclusive evidence of appreciation due to scarcity of gold.

47. We do not think that there is any conclusive evidence of a substantial appreciation of gold to be derived, either from a review of the variations in prices, or of the circumstances relating to the production and use of that metal; at the same time we are far from denying that there may have been and probably has been some appreciation, though we think it absolutely impossible to determine its extent.

When we look at the character and times of the fall in the prices of commodities which has exhibited itself, and the variations which we have pointed out above in § 22, we think the sounder view is that the greater part of the fall has resulted from causes touching the commodities rather than from an appreciation of the standard.

Further question whether silver has depreciated.

48. In the above remarks we have dealt with the fall of the gold price of commodities generally, and have come to the conclusion that the greater part of the fall has resulted from causes touching the commodities, rather than from causes specially affecting gold; but here we are met with the question whether this is true of silver as well as of other commodities.

We have already referred to the striking fact that, whilst gold prices have undoubtedly fallen, silver prices in silver-using countries have not, so far as we can learn from the imperfect statistics of those prices, risen to the same extent. It appears, at any rate, to be true, that the adjustment of prices between gold and silver using countries has taken the direction of a fall in gold prices rather than a rise in silver prices. These facts would seem *prima facie* to indicate that, whilst gold, as compared with commodities, has risen in value, silver has, comparatively, retained its position; and they have been relied on as pointing to the conclusion that, as between gold and silver, it is gold which has appreciated, rather than silver which has depreciated.

49. But this conclusion is by no means certain or necessary. It is quite possible, consistently with the observed facts, that both silver and commodities may have fallen in value together, as compared with gold; and that the result of this concurrent fall may have been to prevent a fall in silver prices, which would have taken place if it had not been for the concurrent fall in the gold value of silver. If this is what has really happened, silver prices in silver-using countries, if not higher, or even if lower, than they formerly were, must now be higher than they would have been but for the fall in the gold price of silver.

Having these two alternatives to choose from, viz., an appreciation of gold on the one hand, and a depreciation of commodities, coupled with a depreciation of silver, on the other, it becomes important to consider with some care what are the special causes which have tended to lower the value of silver, and what effect they have had.

Causes tending to lower the value of silver.

50. The first and most obvious of these is the increase in the annual supply which has occurred during the period of the fall in the gold price of silver, and, concurrently with this increase, the diminution in its use owing to the currency legislation of Germany, the Latin Union, and other European countries.

It is remarked, and no doubt plausibly, that if these elements alone be regarded, the reverse phenomena in the case of gold afford as much ground for the assertion that it is by the appreciation of that metal that the changed relation of the two has been brought about, as for the allegation that it has arisen from the depreciation of silver.

51. We shall have occasion hereafter to dwell upon certain other circumstances which must be taken into consideration in estimating whether the causes at work have been sufficient to account for a depreciation of silver so great as that represented by the fall in its gold price.

But it appears to us most important to bear in mind, at the outset, a marked distinction between the position of the two metals so soon as the rupture of the bimetallic tie was complete.

Difference in the position of silver and

Silver, as we have pointed out, loosened from its artificial tie to gold, became in the West as well as in the United States a mere commodity and freely subject to all the influences, which in the case of other commodities affect their market price.

It may have felt the impulse of causes previously in operation which the existence of the bimetallic link had held in check; and, independently of a diminution of its use in the countries forming the Latin Union, the circumstance that it had in those countries become a mere commodity and could no longer be converted at the will of the possessor into coin, would be calculated to depress its value. gold since  
1873.

But apart from this, the very fact that apprehension as to the future value of silver had induced the action of the Latin Union, the fear of further depreciation, the stock of metal thrown on the market by Germany, and the anticipation of further sales by that country,—all these, with other circumstances that might be named, would be manifest as elements affecting the price to be given for silver, and would be likely to lead to its depression. And there would not necessarily be any calculable relation between these causes of depression and the extent to which the price of the metal fell.

For it appears certain, not only that what may be termed sentimental considerations play a large part in determining market prices, but that causes which can logically be shown to be inadequate, or at least cannot be proved to be adequate, may, nevertheless, be the true explanation of a fall in the price of a commodity. A depressed market, in the absence of some new stimulus, generally tends to further depression.

Every element then, calculated to lower the price of silver, would produce a direct and immediate effect, and one in excess, it may be, of what would reasonably be anticipated from a consideration of alterations in its supply and monetary use alone.

52. With gold, on the other hand, the case is entirely different. To it the mints of all the important civilized countries of the world are open, and these and the great banking establishments are the markets to which it finds its way. It cannot be said to have a market in the same sense as silver.

It is argued, and we admit with truth, that gold is a commodity at Calcutta just as silver is in London. But while London is the great silver market of the world, and the price in that market fixes the general price of the metal, no one can pretend that the same is true of Calcutta in relation to gold. The latter metal has no central market where it is disposed of by sale, and where the daily quotations of price influence men's minds as to its value and their judgment as to its prospects.

On the assumption then that appreciation of gold has been going on owing to altered conditions in the supply and use of that metal, these causes would operate more slowly and less directly than would the like causes operating upon the silver market, when once it has become fully sensitive to them. The progress of appreciation would not invite attention at the time, and would be seen only in its ultimate effect upon prices. And, in the case of gold, the effects would be accurately measured by the strength of the causes at work, free from, or at all events scarcely affected by, the sentimental considerations to which we have alluded.

Even assuming the alterations in the supply and use of the two metals to be of equal potency, we should not be surprised to find that owing to the difference in circumstances on which we have been insisting, a greater depreciation of silver than appreciation of gold was manifested.

53. There is another consideration of equal or even greater importance to be borne in mind.

We have already in § 33 dwelt upon the fact that the circumstances tending to the appreciation of gold have been counteracted or kept in check by other influences operating in the contrary direction.

But, in the case of silver, there have been no such counter influences at work. Economies in the use of metallic money which have tended to diminish the appreciation of gold, so far as they have had any influence at all in the case of silver, must have tended to intensify and increase its depreciation.

54. But the changes in the supply and use of silver need to be considered in connexion with the special circumstances under which they have taken place, to some of the most important of which we have yet to allude.

It is in Europe and in America that these changes have occurred; it is the European and American market for silver which would in the first place be affected by them; and it is through that market that their effect must reach the great silver-using countries of the East.



55. It is therefore desirable to consider in the first place the effect of these changes on the silver market in America and Europe, and afterwards to consider the relation of this market to the silver markets of the East.

We have no estimates of the quantity of silver in Europe and America used in the arts. But it is the monetary supplies of the precious metals with which we are more immediately concerned, and of these we have estimates which, though rough, are sufficient for our purpose. Dr. Soetbeer's estimate of the monetary supply of the precious metals in those countries at the end of the year 1885, is as follows; viz. :—

Gold -	-	-	668,200,000 <i>l.</i>
Silver	-	-	392,150,000 <i>l.</i>

the subsidiary silver being estimated in these figures at the value assigned to it by law, *i.e.*, at a value considerably above its value as silver bullion.

Most, if not all, of this gold constitutes a part of the aggregate stock of gold upon which supply and demand operate, and which has to be taken into consideration when we desire to learn the effect of the diminished annual supply of gold or of the increased demand for it.

Amount of silver subject to the influences of supply and demand.

56. But this is not the case with the silver. The subsidiary silver coinage, to which an artificial gold value is given by legislation, constitutes much the largest part of the silver money of Europe and America; and this portion of the above amount forms no part of the stock in the open market, the value of which is affected by demand and supply. The above stock of monetary silver was distributed as follows, according to Dr. Soetbeer's estimate :—

Great Britain	-	-	-	-	£	21,600,000
British Colonies (without India)	-	-	-	-		3,300,000
Netherlands	-	-	-	-		13,450,000
Latin Union	-	-	-	-		160,000,000
Germany	-	-	-	-		44,600,000
Scandinavian countries	-	-	-	-		2,100,000
United States	-	-	-	-		64,600,000
						<u>£309,650,000</u>
Russia	-	-	-	-		14,000,000
Austro-Hungary	-	-	-	-		18,500,000
Other countries in Europe and America	-	-	-	-		50,000,000
						<u>£82,500,000</u>

Out of these amounts all or nearly all of the stock of Great Britain and her colonies, Holland, the Latin Union, Germany, Scandinavia, and the United States, consists of subsidiary silver maintained at an artificial gold value, and these subsidiary coinages with an artificial value must therefore be deducted from the total monetary stock of silver in Europe and America before we arrive at the amount of such stock which can be affected by an increase in the annual supply of silver. The remainder, as will be seen, amounts to considerably less than 100,000,000*l.* in value.

It is this portion alone, so far as money is concerned, which has to be taken into consideration when we desire to learn the effect of the increased annual supply, or of the diminution, if any, in the demand.

57. An increase in the supply of silver of the value of 10,000,000*l.*\* a year, such as has taken place during the last fifteen years, though comparatively unimportant when considered as an addition to the whole stock of silver in the world, or to the whole stock of silver money in the world, or even to the whole stock of silver money in Europe and America, becomes very important when considered as an addition to a stock considerably under 100,000,000*l.*

Even this is an overstatement of the stock of silver subject to these influences. In many of the countries in which it is to be found, the existence of a forced paper currency, and the absence of free minting operate so as to prevent its having an ordinary market value.

58. In considering therefore the effect of an addition to the annual supply we must look to the proportion which it bears to the stock of unmanufactured silver and of coins

\* See figures in Part I., § 12.

circulating at their full value, rather than at its relation to the total existing stock of the metal.

Even if it should be thought that, in order to arrive at the amount of silver which is affected by the increased supply, we ought to take into consideration the silver used in the arts as well as the monetary stock of silver, the small proportionate amount of the monetary stock still remains a most important factor; and it must be remembered that the value of manufactured silver has been enhanced by the cost of manufacture to an extent largely exceeding its bullion value—a fact which diminishes the probability of its coming into the market as bullion.

It is also a material consideration that while there is evidence of the increased demand for gold for use in the arts in Europe and America, there is, according to Dr. Soetbeer, no such evidence in the case of silver.

59. So far, therefore, as Europe and America are concerned, the stocks of silver upon which an increased supply or a diminished demand, can operate are proportionately small, and the increase of annual supply is proportionately large; whilst as regards demand, the actual use of silver in Europe and America, whether for monetary or for other purposes, has either decreased, or if it has increased, has increased very little. For the reasons to which we have referred in § 51 a comparatively small addition to the supply may produce an effect upon the market quite out of proportion to the extent of the addition.

If then we consider Europe and America alone, there appear to be ample causes to account for a large fall in the gold value of silver, arising from causes affecting silver.

But it is of course to the East, and to the relation of the East to the West, that we must turn for a more complete answer to our question. It is Asia, and India in particular, which always has been, and is, the great absorbent and user of silver; and it is in the trade with Asiatic countries that the divergence between gold and silver is most apparent, and its effects most strongly felt.

It is obvious, therefore, that the East in general and India in particular, whose mints are freely opened to silver, ought to be the principal factors in absorbing any increase of supply and in preventing any considerable lowering of the gold price of silver; and this is in fact what economists expected when silver first began to fall.

If we can find any cause or causes which have interfered with the operation of the Eastern demand, which have checked the flow of silver from the over supplied market of the West to the East, or which have lowered the value of the Indian silver currency when measured in gold, we shall have done much to show that the fall in the gold price of silver is, like the fall in the gold price of other commodities, due in the main to causes affecting silver.

60. One of the difficulties of the question has always been to know why a larger demand for silver in the East has not followed on its fall and cheapened cost in the West.

When silver first began to fall, it was said that the East, whose mints and markets stood open to silver, would take the surplus silver, as it did at the time of the gold discoveries, and that the gold price of silver would be thus kept at or near its former level.

When it was found that this did not happen, the changes in the relative values of the two metals were attributed by many to the appreciation of gold. For this, it was said, would account for a fall in the gold price both of silver and of commodities, but would not necessarily cause any flow of silver from the West to the East; and it was consequently alleged by those who held this view that this appreciation of gold was the cause both of the lower gold price of commodities and of the lower gold price of silver.

But it is obvious on consideration that the same effect would be produced on the flow of silver to the East by a fall in the gold price of commodities and of silver, whether that fall was due on the one hand to the appreciation of gold, or on the other to causes which affected commodities and to similar causes which simultaneously affected silver.

Let it be assumed that goods have fallen in gold price from causes affecting goods, and that silver has fallen in gold price in Europe from causes affecting silver. It is obvious that as regards articles imported into Europe from the East, the English importing merchant would make no new profit by exporting the cheapened silver and importing Eastern goods, if for the goods he imports he were to receive a gold price as much lowered as the gold price of silver had been lowered. And as regards articles of export to the East, there would be no greater profit in buying and exporting the cheapened silver than in buying and exporting other English articles, such as cotton goods and iron, which have fallen in gold price as much as or more than silver.

Reasons why the fall in the value of silver has not caused it to flow to the East.

Fall of gold prices.

In examining the relation of commodities to gold, we have come to the conclusion that the greater part of the fall in the gold price of commodities in general, and among them of the great articles of trade with the East, is due to causes touching the commodities rather than to an appreciation of gold.

If, then, we are right in this conclusion, the fall in the gold price of commodities arising from these causes is itself the reason why the silver in Europe, though cheapened in its gold price from causes affecting silver, has not been exported to the East, and why such export has not maintained or restored the former gold value of silver.

The calculations which were founded on a notion that a fall in the value of silver in the West must send silver to the East, and redress the divergence between gold and silver, have proved erroneous, not because silver has not fallen, but because other things have fallen as much as or more than silver. It was assumed that other things would be equal, and they have not been equal.

61. The above reasons go far to explain why the increased supply of silver in the West has not been drained off to the great reservoirs of the East.

Increased  
balance of  
indebted-  
ness of  
India to  
England.

But another cause which has probably prevented India from taking silver, and which has depressed the silver currency of India in terms of the gold currency of England, is, we think, to be found in the increased indebtedness of India to England on current account, in other words, on the balance of liquidation between the two countries, the operation of which on the gold value of the rupee is no longer checked by any bimetallic tie between the two currencies.

62. We have all of us come to the conclusion that the dissolution of the tie between silver and gold created by the bimetallic system of France and the Latin Union distinguishes the period subsequent to 1873 from former times, and has left other causes of demand for, and supply of, gold and silver free to act.

So long as the ratio between gold and silver remained approximately stable, the two metals might practically be considered one; and the relations of exchange between a country with a gold standard, such as England, and a country with a silver standard, such as India, did not differ in any essential particular from the relations of exchange between two countries with a gold standard, such as England and the United States, or England and Australia. A *quasi* par of exchange was established between the sovereign and the rupee, which though not absolute, as in the case of coins of the same metal, fluctuated within narrow limits.

The peculiarity in the case of England and India is, that, independently of the fluctuating balance of trade or indebtedness arising out of current commercial or financial transactions, there is a constant flow of the precious metals, and especially of silver, from America, as the country of production, and from England, as the great market for the precious metals, to India and the East.

The result of this peculiarity is that alterations in the transport of the precious metals, which between two countries having equal access to them would be reciprocal and alternate, show themselves in the case of India in a greater or a less flow of silver to India, and only in a very extreme case in the entire stoppage or reversal of the flow.

63. In the ordinary case of two countries having the same currency, the exchange is regulated by the current state of liquidation between the two countries.

If England owes more than usual to the United States on account of bad harvests at home and an excessive import of corn, or if England has to make unusual remittances to Australia on account of large loans and advances for railways or other purposes, the effect is at once seen in the exchange, which alters in favour of the United States or of Australia. Bills drawn in London on New York or on Sydney are at a premium. Bills drawn at those places on London are at a discount. But this premium or discount can never exceed the cost of sending gold from London to those places. If there is a normal flow of gold from those places to England it will be checked, and may be stopped or reversed. The same thing would happen in the opposite direction, if these exports from the United States or Australia fell off, and if the payment of interest on money advanced by England caused the balance of liquidation to turn the other way. But in either case it is the cost of remitting gold which limits the alteration in exchange.

64. Now on the assumption that we are right in our view of the operation of the bimetallic tie, the relations of England and India in regard to exchange were, during the operation of that tie, substantially the same as those of England and the United States, or of England and Australia.

Gold and silver were, for purposes of exchange, one metal; the varying balance of liquidation between the two countries would have the same effect on the exchange as it has in the case of countries having the same currencies; and its effect would be limited in the same manner, viz., by the cost of transmitting bullion, which in this case was silver, and which always, or almost always, as we have seen, travelled in the same direction, viz., from England to India.

If India became more indebted to England upon current transactions, *i.e.*, if she had larger remittances than usual to make to England, the effect would be seen in an alteration of the exchange in favour of England. The rupee would fall and the sovereign would rise. But as the two metals were tied together, this rise or fall would, as in the case of England and the United States, or of England and Australia, be limited by the cost of transporting bullion. If the Indian exchange had fallen beyond a certain point, it would have paid the Indian merchant better to export silver to England than to pay the premium. As a matter of fact the flow was always from England to India, and therefore the effect of an extreme fall in exchange was to check or stop the flow, not to reverse it. But it was the cost of transport which formed the limit of the fall of exchange. The ounce of silver being always capable of employment at a certain gold value in France, it would always be more advantageous to send silver to France or to keep it there, than to pay an excessive premium on exchange.

65. But when the bimetallic tie was dissolved this state of things was altered.

If the current indebtedness of India increased, if there were more remittances to be made by India to England than by England to India, the exchange would alter as before in favour of England, but there would be no such limit as before to the fall in the gold value of the Indian currency.

The exchange might alter with the balance of liquidation until an increase in Indian exports, or other alterations in the conditions of trade, had satisfied the liability, and every increase in the balance against India would show itself by a fall in the gold value of the rupee.

66. It is not possible to state a complete account between any two countries so as to show, with certainty and accuracy, the balance of liquidation. All that can be done is to give certain known items, and in the case of India these known items are so important, when compared with the unknown, as to justify some confidence in the result.

The following would be the principal items in a complete account:—

#### *Liabilities of India.*

1. Imports of merchandise.
2. Imports of gold and silver.
3. Freights on exports, minus expenses incurred in India.
4. Private remittances of money and securities from India.
5. Balance of remittances on Government account.

#### *Means of Payment.*

6. Exports of merchandise.
7. Exports of gold and silver.
8. Private remittances of money and securities to India.

Of these items, those numbered 3, 4, and 8, cannot be procured at all; but they are probably unimportant, as compared with the others, and there is no reason for thinking that they would materially alter the balance.

As regards the other items, it is to be remembered that in taking those numbered 1, 2, 5, and 6 from the Indian statistics, we include exports to and imports from silver-using countries, as well as to and from England and other gold-using countries. But considering the comparative magnitude of the trade of India with England, and the importance of the item numbered 5 (*viz.*, Council Bills), these considerations will probably not affect the general results indicated by the figures in the following table.

STATEMENT showing approximately the BALANCE OF TRADE between INDIA and FOREIGN COUNTRIES.

	1870-71.	1871-72.	1872-73.	1873-74.	1874-75.	1875-76.	1876-77.	1877-78.	1878-79.	1879-80.	1880-81.	1881-82.	1882-83.	1883-84.	1884-85.	1885-86.	1886-87.	1887-88.
Exports of Merchandise	Rx. 85,356,000	83,809,000	85,251,000	54,096,000	56,358,000	59,091,000	61,014,000	63,222,000	60,857,000	67,212,000	74,881,000	81,068,000	83,465,000	88,170,000	83,255,000	88,891,000	88,470,000	90,514,000
Gold	591,000	8,000	70,000	203,000	215,000	291,000	1,237,000	1,111,000	2,359,000	300,000	17,000	13,000	164,000	7,000	104,000	530,000	667,000	248,000
Silver	1,720,000	1,663,000	1,219,000	1,648,000	1,910,000	1,908,000	2,718,000	1,100,000	1,623,000	1,735,000	1,463,000	1,087,000	878,000	1,003,000	1,966,000	790,000	1,094,000	1,361,000
Total	87,076,000	84,682,000	86,470,000	55,910,000	58,268,000	60,999,000	63,732,000	64,322,000	63,216,000	68,947,000	76,344,000	82,151,000	83,629,000	89,173,000	85,221,000	89,681,000	89,567,000	91,875,000
Imports of Merchandise	84,468,000	32,062,000	31,875,000	33,824,000	30,222,000	38,802,000	37,441,000	41,461,000	57,800,000	41,166,000	53,117,000	46,113,000	52,096,000	55,279,000	55,703,000	56,656,000	61,777,000	65,008,000
Gold	2,768,000	8,573,000	2,622,000	1,648,000	2,080,000	1,830,000	1,444,000	1,579,000	1,463,000	2,080,000	3,672,000	4,867,000	5,086,000	5,469,000	4,778,000	3,692,000	2,834,000	3,272,000
Silver	2,692,000	8,000,000	1,984,000	4,144,000	4,062,000	3,104,000	3,098,000	18,776,000	5,294,000	9,605,000	5,316,000	6,461,000	8,358,000	7,400,000	9,110,000	12,981,000	8,230,000	10,730,000
Total	39,214,000	40,685,000	30,481,000	39,012,000	34,384,000	44,192,000	40,539,000	60,237,000	63,094,000	50,771,000	62,103,000	52,574,000	60,454,000	62,679,000	64,813,000	69,647,000	70,011,000	75,738,000
Net Exports of Merchandise	30,862,000	42,617,000	55,595,000	16,976,000	24,074,000	22,197,000	23,293,000	22,861,000	2,163,000	18,176,000	14,241,000	29,577,000	23,175,000	26,701,000	20,508,000	33,025,000	19,056,000	15,057,000
Net Imports of Gold	2,983,000	3,565,000	2,542,000	1,382,000	1,874,000	1,545,000	307,000	493,000	-696,000	1,760,000	3,655,000	4,844,000	4,981,000	6,402,000	4,672,000	3,703,000	2,177,000	2,998,000
Silver	948,000	6,632,000	715,000	2,496,000	4,945,000	1,556,000	7,190,000	14,676,000	3,871,000	7,870,000	3,983,000	5,379,000	7,480,000	6,406,000	7,215,000	11,690,000	7,164,000	9,219,000
Excess of Exports	17,843,000	21,080,000	20,118,000	17,988,000	13,681,000	16,096,000	16,107,000	8,614,000	-5,062,000	16,406,000	13,918,000	22,202,000	18,978,000	21,029,000	18,293,000	18,322,000	11,892,000	5,838,000
Rupee Paper authorized for payment of interest in England	- 1,055,000	- 165,000	- 865,000	767,000	361,000	- 1,237,000	1,443,000	1,318,000	3,598,000	2,831,000	702,000	1,895,000	2,048,000	- 110,000	- 870,000	- 1,000,000	- 600,000	1,744,000
REMITTANCES BY THE GOVERNMENT:	13,277,000	20,825,000	19,620,000	18,045,000	13,992,000	14,362,000	17,810,000	9,922,000	33,080,000	19,260,000	14,618,000	24,519,000	21,026,000	20,919,000	15,383,000	12,734,000	16,960,000	15,074,000
Payments in India for Bills and Transfers drawn to defray Home Charges	9,708,000	9,856,000	12,068,000	14,764,000	11,998,000	14,504,000	14,401,000	10,321,000	17,408,000	17,992,000	14,203,000	22,123,000	18,966,000	22,962,000	16,089,000	14,408,000	16,736,000	20,318,000
Bills drawn on India for interest on authorized Rupee Paper	880,000	679,000	610,000	602,000	610,000	639,000	502,000	617,000	868,000	737,000	799,000	839,000	801,000	693,000	671,000	630,000	764,000	804,000
Excess of Surplus Exports over Remittances by Government	2,749,000	10,220,000	4,194,000	3,199,000	1,573,000	-	2,534,000	-	6,397,000	641,000	-	1,561,000	1,829,000	-	-	-	-	-
Excess of Remittances by Government over Surplus Exports	-	-	-	-	-	801,000	-	978,000	-	-	4,367,000	-	-	2,907,000	1,633,000	2,677,000	674,000	6,449,000
Average rate of Exchange	4 d. 1 10/60	4 d. 1 11/12	4 d. 1 10/78	4 d. 1 10/35	4 d. 1 10/13	4 d. 1 9/33	4 d. 1 8/5	4 d. 1 8/79	4 d. 1 7/79	4 d. 1 7/96	4 d. 1 7/96	4 d. 1 7/89	4 d. 1 7/32	4 d. 1 7/28	4 d. 1 7/31	4 d. 1 6/25	4 d. 1 6/44	4 d. 1 6/80

67. These figures show that, so far as we can judge from the items comprised in them, the balance of liquidation has, since 1870, been constantly, though not regularly, against India; and if the above reasoning is correct, they give a reason why the silver currency of India has become depreciated in terms of English currency, or in other words, why the rupee has fallen in gold value. They thus furnish an additional reason why the demand of India for silver has not been such as to counteract its fall in gold value in Europe; and why the flow of silver to the East has been checked.

It must not be supposed that India stands alone in respect of the change which we have pointed out in the growing balance of liquidation; but we refer to it here as bearing upon the demand for silver for the purpose of remittance to that country.

68. If our view is correct, it illustrates the real effect of the Indian Council Bills, which undoubtedly compete with silver as a mode of remittance, and thus have an immediate effect on the silver market. These bills indicate an increased demand for remittances from India to England, and tend to make the demand for such remittances exceed the demand for remittances from England to India. This excess is consequently shown in a fall in the exchange value of the rupee, not now limited as heretofore by the bimetallic tie between gold and silver.

69. It is not to be expected, especially with the imperfect data at our disposal, that the connexion between the fall in exchange, the balance of liquidation, and the different items constituting the balance, can be traced in detail in the statistics. The various items which help to create the balance of international liquidation are too many and too uncertain to make such a process possible. But there is enough in the above figures to show that the balance against India has been and is on the increase, and that the demands on India have not been completely counteracted by increase in her exports.

70. Nor must it be supposed that the increase in the balance of liquidation, as shown in the exchange value of the rupee, indicates any permanent impoverishment of India. It only shows that for the moment the balance of liquidation is against her. Such a result would in fact be produced if the growing wealth of India enabled her to repay the capital of her gold debt with increasing rapidity. The causes which have led to the existence of an adverse balance of liquidation may, indeed, well have been such as to conduce to her essential prosperity, and enable her to discharge the balance with greater ease.

71. The above are reasons for thinking that the greater part of the fall in the gold value of silver has been due to causes affecting silver rather than to causes affecting gold, and this conclusion fortifies, and is fortified by, the conclusion to which we have already come, that the fall in the gold price of commodities is in the greater part due to causes which affect those commodities rather than to causes which affect gold.

Conclusion that the fall in the value of silver is mainly due to causes affecting silver.

72. So far as the fall in prices represents an appreciation of the standard, undoubtedly we are in presence of an evil resulting partly from currency changes, and partly from changes in the quantity of the precious metals produced.

It is of the essence of a good standard that it should be as stable as possible, and should not in itself be subject to causes affecting its relation to commodities. We have in the earlier part of the report pointed out the effect of such instability on the relative position of debtor and creditor, and this is specially important in the case of industrial enterprises where the same interest has often to be paid upon borrowed capital, even though, owing to the fall in the price of the industrial product, it represents a greatly increased burden.

Part I., § 9.

73. The arguments which have been adduced as to the effect on trade and enterprise of falling prices are not without their weight. We do not notice at this point the effects alleged to be directly produced upon prices and industry in this country by the changed relations of silver to gold, although they are by some attributed to the appreciation of the latter metal.

There are others who deny or doubt the appreciation of gold, but trace the same effects directly to the altered relation of silver to gold.

It will be more convenient, therefore, to defer the discussion of this part of the case until we have dealt with the allegation that the fall in the gold price of silver has directly affected the prices of commodities produced in or exported to silver-using countries.



74. Before proceeding to do this we must remark that any consequences arising merely from an appreciation of the standard would be but temporary, though not necessarily limited to a short space of time. They would continue, indeed, to operate upon all engagements to pay a fixed sum at a future date, so long as those engagements were current. But as soon as all prices had adjusted themselves, as ultimately they must, to the new conditions, the evil would disappear.

Direct effect  
on gold  
prices  
generally of  
fall in gold  
price of  
silver.  
Report,  
Part I.

75. We pass on to consider the view which has been presented to us that the fall in the gold price of silver has resulted in a corresponding fall in the gold price of commodities produced in India, and of those which are exported to that country from gold-using countries.

A fall in the gold price of silver having taken place, due to the combination of causes pointed out in § 198, it is obvious that a corresponding adjustment in the gold and silver price of commodities was inevitable.

It is impossible that there could be, for more than a short period, a greater difference between the silver price of a commodity, used in and exchangeable between silver and gold using countries, and the corresponding gold price, than would be represented by the cost of transferring the commodity from the silver to the gold-using country or *vice versa*.

Whenever, then, a fall takes place in the gold value of silver, either the gold price of these commodities must fall, or the silver price must rise, or the adjustment must be brought about by both these operations combined.

76. If, however, concurrently with the fall in the gold price of silver, there were a fall in the gold price of commodities, then it is possible that, while gold prices fell, silver prices would remain stationary, or that a fall would result in both gold and silver prices, and that the adjustment would be arrived at by a commensurate difference in the amount of the fall; and in the present instance this would seem to have been the case.

Movement  
of prices in  
India.

77. It is not easy to arrive at an accurate estimate of Indian prices. They have, of course, varied much as regards particular commodities. The price of wheat, for example, has, owing to the failure of crops and other influences, risen greatly at times, and it has, from local causes, varied in different parts of the country. But there seems reason to believe that on the whole the silver prices in India, are at the present time, a little, though not greatly, lower than they were.

78. In the case of some important commodities, in the production of which India competes with gold-using countries, the fall in the gold price has exceeded the fall in the gold price of silver; but the gold price of other commodities produced in India, which are less subject to the competition of other countries, has not fallen to the same extent as that of silver.

79. If the entire fall in the price both of commodities and of silver had resulted from the appreciation of gold, the problem would be simple enough.

In that case both silver and commodities must ultimately fall to the same extent, but we have already stated our reasons for thinking that the altered relation of gold to commodities and silver has not arisen alone or chiefly from the appreciation of gold.

It follows that in so far as silver prices in India have remained stationary or fallen less than gold prices, other causes affecting the relation of commodities and silver respectively to gold must have been in operation.

Part II.,  
§§ 47-71.

Connexion  
between  
fall in  
exchange  
and in gold  
prices,

80. It is alleged that there is an intimate connexion between the fall in the gold price of silver and the corresponding fall in the price of commodities produced in and exported to India, and that the fall in the gold price of commodities has been brought about directly by the fall in the gold price of silver.

More than one witness has stated that such a fall has been followed invariably in experience by a fall in the gold price of wheat, and it has been alleged that the two are connected as cause and effect in the manner we have already indicated in § 75.

illustrated  
by the fall  
in the price  
of wheat.

81. The growth of wheat has largely increased in India and elsewhere, and thus competition has become keener. Under these circumstances it is said that the Indian producer whose charges are payable in silver, and who therefore receives the same margin of profit so long as the silver price remains the same, can afford, notwithstanding the fall in the gold price of silver, to sell at the former silver price (which, of course, means a lower gold price), and will not stand out for a higher silver price.

82. We think, that when supplies of wheat are increasing and the competition of producers to dispose of it is keen, this tendency will exist, but it is impossible to determine its force and effect with any accuracy.

It must be remembered that Russia, which largely supplies the wheat market, has a currency which is greatly depreciated, and if the fall in the gold price of silver tends to lower the price of wheat, it is not easy to see why the great depreciation of the paper rouble should not have the same tendency.

83. One witness who has had great experience in the wheat trade, and who favours the view that a fall in the price of silver tends to depress the price of wheat, has himself pointed out that it is only occasionally that the price of Indian wheat can be said to rule the market. This must depend upon the extent of the supplies from other wheat-producing countries, as compared with those coming from India, as well as upon other circumstances. During the past year, for example, it is said that, owing to an abundant crop, Russian wheat has been the principal factor in determining the market price, and it is manifest that, apart from other circumstances, an unusually good harvest in America might have the same effect. Q. 10,024.

We think, therefore, that it is easy to exaggerate the influence which the fall in the gold price of silver has exerted upon prices, even assuming it to have had any such operation as is suggested.

84. We have already, in §§ 25–31, dwelt upon the reasons which satisfied us that other causes have largely conduced to a fall in the price of wheat, as well as of other commodities.

Even then, if the view we are discussing be well-founded, we think it would be a mistake to attribute more than a very limited portion of the fall of price to this cause.

85. Even if it be admitted that it has had some operation, we think it by no means follows that a rise in the gold price of silver would reverse that operation to the same extent.

So far as it has acted, it has been a cause working in the same direction as competition, and in connexion with it; and it does not follow that, when acting in the opposite direction and against the force of competition, it would have an equally extensive effect in the other direction.

We have used the case of wheat as an illustration, but so far as the same circumstances exist in relation to other commodities, the effect would be the same.

86. We pass on to consider the prejudicial consequences which are alleged to have resulted from the fall in the price of Indian produce, especially of wheat, both by those who attribute this fall to the appreciation of gold, and by those who connect it directly with the fall in the gold price of silver. It is asserted that its effect has been to create a bounty upon the production of wheat in India, and thus to act prejudicially upon other wheat-producing countries. Alleged bounty on the production of wheat in India, owing to fall in exchange.

87. We do not think the term bounty is in any view properly applicable. If the silver price of wheat in India is no higher than it was, its growth can be no more profitable, and there is, therefore, nothing to stimulate increased production.

At the same time, it must be admitted that the Indian producer is for the time in a somewhat more favourable position than his English competitor.

The elements which go to make up the cost of production in India being payable in silver, and not having materially increased, the Indian producer, supposing him to obtain the same silver price, is in substantially the same position as before, even although the gold price of silver has greatly fallen. The gold price of his produce has fallen, but so has the cost of production as measured in gold.

The English wheat-grower, on the other hand, who receives the corresponding gold price, that is, a lower price than before, is in a worse position, except so far as he can reduce the cost of production in the same ratio as the price of the product. That is to say, unless there is a fall in rent, taxes, wages, and the other elements of which the cost of production is made up, proportionate to the fall of price, he is at a disadvantage as compared with the Indian producer; and as it can hardly be contended that this adjustment has as yet completely taken place, there can be no doubt that the English wheat-grower is for the present placed at some disadvantage.

88. In our opinion it is only to a limited extent that prices can have been affected by, or that the low price of agricultural produce can be due to, the fall in the gold price of silver or the appreciation of gold.

The depressed condition of agriculture is at least largely due to the other causes to which we have, in the earlier part of the report, called attention; and it must not be forgotten that it is only in one important description of agricultural produce that India competes with this country.

Effect of fall in gold price of silver on exports from gold-using countries.

89. We have next to discuss the allegation that the price of commodities produced in this country, and exported to silver-using countries, has been affected by the fall in the gold price of silver.

It is said that inasmuch as the Indian producer gets no higher silver price than before, and the ryot is paid the same silver wages, they are not in a position to give more silver than before for the produce which they buy, and, therefore, cannot purchase as much as before, unless the manufacturer is willing to sell at the same silver price, that is to say a lower gold price; and the result of this must be either a diminished sale of these imported goods, or the supply of an inferior article, or the sale of the same article at a lower gold price.

Very serious complaints have been made of the consequences which are said to have ensued, especially to the trade and manufactures of Lancashire.

As, for example, on cotton goods.

90. We do not deny that fluctuations in the rate of exchange do constitute to a certain extent an impediment to trade; nevertheless it appears that the trade between this country and India has increased largely in volume.

But it is said that as the gold price of silver has continued to fall, so the price of Lancashire goods exported to India and China has fallen in correspondence with it.

Inasmuch as it appears to be the fact, whatever be the true explanation of it, that the Indian producer receives, notwithstanding the fall in the gold price of silver, no more silver for his produce than before, and the wage-earner no higher wages, we think that these circumstances, other things remaining the same, would have a tendency to reduce either the quality or the price of the goods exported to silver-using countries, or perhaps both.

The increased volume of trade may be accounted for by an increase in the number of wage earners and the purchasing power of the country, consequent upon its increased prosperity, and the growth in its own export trade. The opening up of the country by means of railways, and the development of agricultural industry would no doubt enable a larger number of persons to purchase the imported commodities.

The fall in this case can, however, be largely accounted for in other ways.

91. But we think it would be wrong to attribute the whole or anything like the whole fall in the price of Lancashire goods to such a cause as that above described, even if it has had any substantial operation.

Many other factors have been at work. The cost of the raw material has diminished, and so has the expense of conveying the goods to their destination, and considerable economy has been effected, by improved machinery, in the cost of production. A given number of workers can now turn out a greater product.

All these changes have conduced to enable the manufacturer, without any alteration of his position, to sell to the Indian purchaser at a considerable reduction in price.

92. In addition to this, those who have most loudly complained of the disastrous effect upon Lancashire industries of the fall in the gold price of silver, themselves attribute the unfavourable position of these industries in part to other causes, and notably to the enormous development of competition due to the large increase in the number of mills, which they allege has arisen from the working of the Limited Liability Acts.

93. Even if it be admitted that the depression of prices may possibly have been intensified by the changed relation of silver to gold, we think that it is mainly attributable to other causes; and it must be remembered that if the conclusion we have expressed as regards the depreciation of silver be well founded, the fall in the silver price of important Indian products would, but for the fall in the gold price of silver, have been considerably greater than it has been; and if so, the producer has, by reason of that fall, received more silver for his produce than he otherwise would, and has, therefore, been able to give more silver for imported goods than if no such fall had taken place.

94. We have already pointed out that even upon the hypothesis we have been discussing in the preceding §§, it must not be assumed that a rise in the gold price of silver would be followed by an equal rise in the gold price of Indian commodities; and if it were not, the Indian producers would receive less silver for the same amount

of produce, and it would not therefore necessarily follow that they would be able to pay a higher gold price for the goods they purchased.

95. So far as the fall in prices can be connected with the currency, it cannot be denied that it is attended with great inconveniences.

It must tend to diminish the margin of profit, or even to cause it to disappear altogether, and this necessarily results in an effort on the part of the manufacturer to economise the cost of production by reducing the wages of the operatives.

Even if the manufacturers could succeed in reducing wages sufficiently to maintain their former position, this could only be done after considerable struggles and an amount of friction very undesirable.

It is true that real wages depend not on their nominal amount but on their purchasing power, and that the wage-earning class may be in the same position as before, although they receive lower nominal wages.

But this is not immediately obvious, and does not prevent the disturbance of trade and the ill-feeling which result from an effort to reduce wages.

Further, it seems by no means clear that there has been a fall in the price of all that the wage-earner needs, and upon which his wages are expended, equivalent even to the reduction of wages which has, in fact, taken place.

96. Here again, however, we must beware of exaggeration.

There is always a temptation to refer all the phenomena which are observed to a single cause; but, both lower wages and want of employment, which depend on the state of the labour market, must have been affected by other causes besides the special one we are considering. All labour-saving inventions and the displacement of labour from other branches of industry, such as agriculture, must have tended, for a time and until a complete adjustment has taken place, to lower the rate of wages.

97. It is not only in the manner which we have been discussing that the trade of Lancashire is said to have been affected. Complaints are also made, as we have seen, that a part of that trade has been lost owing to the competition of cotton mills in India, and especially at Bombay, which, it is alleged, have been unduly fostered by the advantage afforded them through the lower gold price of silver.

We need not repeat the facts relied on, which are to be found in § 76 of our main report, where we have pointed out that the question is of a very technical character, and is still under consideration by experts. Under these circumstances we are not prepared to pronounce any judgment upon it.

98. In concluding the expression of our views upon this part of the case, we would observe that the character and mode of operation of the influence which the currency exerts upon prices are matters of extreme complexity, and have been the subject of extended discussion.

Extremely different views have been maintained and adhered to with equal tenacity by able and painstaking economists. Treatises of considerable length have been written expounding these different views.

We feel that it is quite impossible, without extending this report to an unreasonable and inconvenient length, to exhaust the discussion of the subject. All that we can do is to indicate the conclusions at which we have arrived, alluding briefly to the arguments which have been most prominently put forward.

We are strongly impressed with the conviction that the materials do not exist, and that the time has not arrived for the expression of a confident opinion upon these points. We offer our conclusions as at best but an approximation to the truth, and not as logical deductions resting upon the assured basis of ascertained facts.

99. We may summarise our conclusions upon this part of the case as follows:—We think that the fall in the price of commodities may be in part due to an appreciation of gold, but to what extent this has affected prices we think it impossible to determine, with any approach to accuracy.

We think, too, that the fall in the gold price of silver has had a tendency operating in the same direction upon prices; but whether this has been effective to any, and if so, to what extent, we think equally incapable of determination.

We believe the fall to be mainly due, at all events, to circumstances independent of changes in the production of, or demand for, the precious metals, or the altered relation of silver to gold.

As regards the fall in the gold price of silver, we think that, though it may be due in part to the appreciation of gold, it is mainly due to the depreciation of silver.

Evils attending a fall of prices if due to alterations in the standard of value.

Complaints of increasing competition of Indian cotton industry.

Report, Part I.

Impossibility of forming any positive conclusions as to the relation between currency and prices.

Conclusions as to fall of prices of commodities.

Effect upon  
India of fall  
in gold price  
of silver.  
Report,  
Part I.,  
§§ 103-113.  
Part II.,  
§§ 14-16.

100. We have hitherto been dealing with the effects which currency changes are alleged to have produced upon the commerce of this country and of India generally. We now turn to certain special evils which are said to affect the financial position of the Indian Government. Here we are on firmer ground. It is not necessary to make any detailed statement of the considerations bearing upon this part of the case, as they are fully set forth in § 103 and the following §§ of our main report. We have already made some allusion to them in the discussion of the results which have flowed from the fluctuating relation between gold and silver.

101. There cannot be two opinions as to the very serious effect which the continued fall in the gold price of silver has had on the finances of the Government of India.

Unless expenditure be diminished every additional fall in the value of the rupee renders additional taxation necessary if a deficit is to be avoided; and even if it be true that India has upon the whole benefited by the fall in the gold price of silver, that the condition of her agricultural industry has improved, and that commercial enterprises have prospered, this does not obviate the difficulties of the Government.

Even if, in consequence, additional taxation might in some quarters be well borne, it is not easy, if indeed it be possible, to devise means by which such additional taxation should impose a burden only on those who are able to bear it.

102. We are fully impressed with a sense of the difficulties which surround the Indian Government, and of the serious questions to which any proposed additional tax must give rise.

It is not only the embarrassment which has already been caused to the Government of India that has to be borne in mind, but the impossibility of foreseeing to what extent those embarrassments may be increased, and their difficulty augmented, by a further depression in the value of silver.

We have no hesitation, then, in expressing the conclusion that the changes in the relative value of the precious metals are causing important evils and inconvenience to the Government of India, which are well worth the endeavour to remedy them, if a remedy can be devised, which could be adopted without injustice to other interests, and without causing other evils or inconveniences equally great.

It must be remembered, however, that if the view be correct that there has been a substantial fall in the value of silver which has prevented the silver prices of Indian produce being as low as they otherwise would have been, then to that extent the Indian taxpayer has escaped the increase of his burdens which would have resulted, assuming the taxes imposed to have remained the same.

#### CONCLUSIONS AS TO THE REMEDIES WHICH HAVE BEEN SUGGESTED.

103. We turn now from the consideration of the evils attributed to the altered relation of gold and silver and to currency changes, to inquire whether any remedy can be found which would remove these evils, without bringing with it others, as great or greater, in their place.

Bimetallism.

No measure has been suggested that claims to be anything like so complete and thorough a remedy as the adoption of the system known as bimetallism.

Objection has been taken to the use of this term on the ground that it does not accurately describe the nature of the system. It is unnecessary to discuss the justice of this criticism, as the term has been so generally employed to describe the arrangement which prevailed in the Latin Union prior to 1873, that it would only cause confusion if we were to adopt any other expression.

Concurrence  
of other  
Powers  
essential.

104. We have described in § 116 of Part I., what are the essential elements of a bimetallic system of currency.

Before proceeding to discuss the merits and demerits of such a system, we would observe that we shall do so on the basis that this country would not be prepared to entertain the question of its adoption at all, unless as part of an international arrangement to which the leading commercial nations of the world were parties.

No one has seriously proposed that England should, except as a party to such an arrangement, abandon her present gold standard, and substitute a bimetallic one, and although some have maintained the position that if the Latin Union alone were to revert to their former practice, it would be effectual to achieve the object in view, the advocates of bimetallism are generally agreed, that the true basis to be sought is such an international arrangement as we have indicated.

We should, however, point out that they are not agreed as to the inclusion of India in any such arrangement. Its exclusion would be a singular anomaly. Its inclusion would provoke fresh and grave difficulties.

Nor have we any means of ascertaining what view would be taken by Australia and other of our Colonies with reference to the formation of a bi-metallic union. As large producers of gold they might naturally take objection to it, and it would be a serious matter to introduce a different system of coinage in the mother country and our larger colonies.

105. We would further observe that if the question is to be entertained at all, it appears to us that it should only be on the basis of a ratio, between silver and gold, approximating to the present market ratio of the two metals.

It would not of course be practicable for obvious reasons to adopt, as the basis of the arrangement, what happened to be the market ratio at the date fixed for its coming into operation. It would probably be thought desirable to take the average ratio of two or three years.

We will state hereafter our reasons for thinking that it would be highly inexpedient to adopt a ratio differing very materially from that ruling in the market, and that to revert to the ratio of 15½ to 1 formerly in force in the Latin Union would be fraught with serious danger, not to speak of injustice.

We shall for the present pursue the inquiry upon the assumption that an international agreement could be arrived at, under which the United Kingdom, Germany, the United States, and the Latin Union should be parties to the adoption of a bimetallic system with a ratio approximating to the market ratio.

106. The first question that arises is, how far would such a scheme remove the evils to which we have drawn attention?

The proved evils we take to be the following:—The inconvenience and burden to which the commerce between gold and silver using countries is subject, owing to fluctuations in the relative value of these metals; and, further, the difficulties in which the Indian Government is involved, owing, not only to the fluctuations in the relative value of the metals forming the standard in this country and in the Indian Empire respectively, but also to the fall which has taken place in the gold price of silver, as well as the uncertainty and apprehension due to the impossibility of forecasting the future position of that metal, and the extent to which its gold price may yet fall.

There are other evils complained of—such as the fall of prices attributed to the appreciation of gold, the alleged tendency in the fall of the gold price of silver to depress the prices of commodities produced in and exchangeable between gold and silver using countries, and the further tendency attributed to this fall, to favour unduly the competition of India, as against this country, alike in its internal commerce and in that with silver-using countries. These are, no doubt, worthy of grave consideration, as possibly arising from alterations of the currency, and of the relation of the precious metals to one another, but we do not consider them as by any means proved.

107. The first step towards answering the inquiry we have proposed to ourselves is to determine the subsidiary question whether a bimetallic arrangement could create and maintain a stable ratio between silver and gold.

We have already so fully set out the opposing views held on this point, that it will be sufficient, without examining them at any length, to state the conclusions at which we have ourselves arrived.

We think that in any conditions fairly to be contemplated in the future, so far as we can forecast them from the experience of the past, a stable ratio might be maintained if the nations we have alluded to were to accept and strictly adhere to bimetallicism, at the suggested ratio. We think that if in all these countries gold and silver could be freely coined, and thus become exchangeable against commodities at the fixed ratio, the market value of silver as measured by gold would conform to that ratio, and not vary to any material extent.

We need not enter upon a detailed explanation of our reasons for entertaining this view, since they will be gathered from what we have already stated when discussing the causes of the divergence in the relative value of the two metals, and will be seen to result, in our judgment, as well from *a priori* reasoning as from the experience of the last half century.

Position  
of India,

and of  
Australasian  
colonies.

Ratio to be  
not very  
different  
from market  
ratio of the  
day.

How far  
such a  
scheme could  
be a remedy  
for the  
alleged evils.

Possibility of  
maintaining  
fixity of the  
ratio.



108. We do not deny that it is conceivable that these anticipations might be falsified by some altogether unprecedented discovery of one or other of the precious metals, and that the maintenance of a stable ratio might then become difficult. But for practical purposes, we think we may put this aside and reasonably act on the assumption that no such grave dislocating cause is likely to arise. We have already drawn attention to the fact that, during the time covered by the great gold discoveries, the production of silver continued undiminished, and that of late years, when gold is said to have been appreciating, the production of silver has increased.

Fluctuations of exchange due to difference of standard would be prevented.

109. We pass on then, to the next point, namely, assuming such a stable ratio to be secured, what effect would it have upon the evils with which we have to deal?

Fluctuations of exchange between countries having a different standard, so far as they depend upon the varying relation of silver to gold, would cease, and the perplexities and difficulties which now so severely beset the Indian Government would be at an end, subject to this qualification, that so far as the burden on the Indian Exchequer is due to the fall which has taken place in the gold price of silver, that burden would continue permanently.

But it must be remembered that in the view of the Indian Government—and upon this point we agree with them—this would involve less danger and evil, than the continuance of the present state of uncertainty with the risk of a future fall.

Effect upon other evils.

110. As regards the other evils which we have classed as possibly or probably due to monetary changes, rather than as conclusively proved to result from them, the adoption of bimetallism would not be without its effect.

In so far as the fall in prices which has occurred is due to the appreciation of gold, we think its adoption would tend to check and diminish, if not to prevent, further depression of prices from appreciation of the standard.

If in any degree the fall in the price of commodities produced in and exchangeable between gold and silver using countries respectively has resulted from the fall in the gold price of silver, this cause would cease to operate, and no further depressing influence could ensue from it when once a stable ratio between the two metals was established.

Finally, if it be true that a fall in the gold price of silver unduly favours Indian manufacturers in their competition for trade at home and with silver-using countries, there would be no extension of this fostering influence.

111. We may point also to an advantage of a different character which might perhaps arise from the adoption of bimetallism.

There seems reason to believe that the production of gold has been diminishing, and it is uncertain whether this diminution has reached its lowest point.

Enlargement of basis of credit.

On the other hand, there is some reason to suppose that the use of that metal in the arts is likely in the future to increase. There can be no doubt too that the population and commerce of nations having a gold standard may be expected to increase largely.

Under these circumstances it may be open to argument that the vast superstructure of credit, which rests upon a gold basis, would run the risk of being disturbed if the standard were found to be appreciating. If, on the other hand, credit were founded on a bimetallic, instead of a gold standard, the base upon which the fabric rests might be enlarged, and the danger to which we have alluded might be diminished.

Would not remedy the fall which has already taken place.

112. We have yet to consider whether the adoption of the bimetallic system, even if it did effect a cure of all or some of the evils, at present experienced, would be itself productive of mischief as great or greater.

We have already pointed out that so far as the finances of India have suffered from the fall in the gold price of silver, the burden due to this cause would then become permanent.

It is also obvious that if, and in so far as, the gold price of commodities has fallen owing directly to the fall in the gold price of silver, that fall would, other things remaining the same, be permanent also, and the chance of some rise in these gold prices, due to a rise in the gold price of silver, would be lost.

But if, on other grounds, the adoption of bimetallic were deemed expedient, we should not regard this as a fatal objection, or as counterbalancing the advantages to be obtained from it.

113. There are other reasons against its adoption, deserving of far more serious consideration.

It is alleged that the position of England as the financial centre of the world depends greatly upon the fact that she has, and has for a long time enjoyed, a gold standard.

This is no doubt strenuously controverted, and it is asserted by other authorities that the financial position of England is in no way bound up with the circumstance that she is monometallic, and that her standard is a gold one.

We need hardly dwell upon the fact that the financial position which this country occupies is a matter of immense importance, that the risk even of interfering with it, or of taking any course which could reasonably be expected to affect it, is not to be lightly encountered; and even those who do not entertain grave apprehensions of a disturbance of existing financial conditions, if we were to depart from monometallism and accept the bimetallic standard, cannot dispute the fact that the existence of such apprehensions is not to be treated as a trivial circumstance, or one to be lightly regarded.

The danger may be enhanced by the circumstance that the mere fact of one change having been made would lead to the apprehension that others might follow.

114. It has not been suggested by the advocates of bimetallicism that we ought, if that system were adopted, to prohibit contracts requiring performance by the payment specifically of one or other of the precious metals; and in the present state of financial opinion and practice it seems by no means certain that such contracts, if permitted, would not be common.

The result of this might be not only to cause some strain upon the bimetallic ratio, but to send gold to a premium, and to produce considerable financial disturbance.

115. A further danger to be apprehended is that the nations who were parties to the bimetallic arrangement might not continue to adhere to it.

It may be difficult to suggest any motives which should make it their interest to secede; and it may be capable of proof that any country violating the international compact would subject itself and its people to loss and serious inconvenience, but, unhappily, enlightened self-interest is not the only motive of the political action of nations, nor is self-interest always enlightened. A desire to inflict injury may often exercise as potent an influence as self-interest, and the idea that the financial position of one country might be endangered with a resulting advantage to other countries might well afford a sufficient motive for action.

Any such departure from an international compact might indeed set this country free again to act as she chose, but if the result were to compel her to revert to the system she had abandoned, she would undoubtedly find herself in a position worse and fraught with greater evils than if she had maintained her existing standard.

At present the action of this country is unfettered, and not dependent upon the course taken by any other Power. This condition of freedom would cease as soon as she became a party to an international agreement.

Dangers arising from this cause would be aggravated if it were found necessary, as we think it would be, to embody in an international agreement detailed stipulations with regard to the coinage, currency, or internal financial arrangements of the several countries joining in it.

116. Another serious consideration is that the governments as well as the banks and financial institutions of particular countries might, notwithstanding the existence of a bimetallic system, seek to accumulate gold. It may truly be described as at present the more esteemed metal of the two. There has certainly been a tendency of late years to substitute it for silver as the standard, and to use it to an increased extent for currency purposes throughout the commercial world. With the single exception of the Bland Act in the United States, all recent changes in currency legislation have been in the direction of using gold rather than silver for currency purposes. This fact shows at any rate a sentiment in favour of gold which may not be without its influence; and indeed beyond the mere sentiment, the superior convenience of that metal for monetary purposes may tell in the same direction.

117. In addition to this, the apprehension that the bimetallic arrangement could not be relied on as permanent, and the fear of secession from it, might operate strongly to induce bankers and financiers to hold as large a stock as possible of gold rather than silver. This might cause a struggle for the possession of gold with

Financial position of the United Kingdom might be affected.

Possibility of contracts being made to pay in one or other of the two metals only.

Dangers arising from the possible secession of some of the contracting Powers;

or from a tendency to hoard gold.

consequent financial disturbance, and with the result that nations who are accustomed to the use of gold for the actual purposes of currency, and who have enjoyed its superior advantages for that purpose, owing to its bulk being less in proportion to its value, might not be able easily to acquire or retain all that its people needed for these purposes.

Report,  
Part I.

118. In this connexion, the experience of France is, we think, very instructive. The table given in § 124 of the main report shows the coinage in that country from 1816 to 1880.

It will be observed that from 1830 to 1845 the coinage of gold was almost replaced by that of silver, and from 1846 to 1865 that of silver again, to a great extent, by that of gold. The continuance for a few years longer of the conditions which prevailed up to 1845 would apparently have resulted practically in the entire cessation of gold coinage in France. Even as things were, the result led to the existence of an agio on gold coins; and it seems probable that the most extended international agreement would lead from time to time, in some of the countries included in it, to the existence of a premium on either the gold or the silver coins; and it cannot be denied that an agio on any part of the coinage would be a serious evil.

Improb-  
ability of  
gold dis-  
appearing  
from circu-  
lation.

119. Apprehensions have been expressed that if a bimetallic system were adopted gold would gradually disappear from circulation. If, however, the arrangement included all the principal commercial nations, we do not think there would be any serious danger of such a result.

Such a danger, if it existed at all, must be remote. It is said, indeed, by some that if it were to happen, and all nations were to be driven to a system of silver mono-metallism, the result might be regarded without dissatisfaction.

We are not prepared to go this length, but, at the same time, we are fully sensible of the benefits which would accrue from the adoption of a common monetary standard by all the commercial nations of the world, and we are quite alive to the advantage of the adoption by these nations of an uniform bimetallic standard as a step in that direction.

General  
conclusion  
as to bi-  
metallism.

120. We have thus pointed out the advantages and disadvantages to be anticipated as the result of entering into the bimetallic compact suggested.

We have now to weigh the advantages against the disadvantages, and to answer the question whether in our opinion the result of the change would, upon the whole, prove beneficial.

It is comparatively easy to estimate with substantial accuracy the extent and force of evils or inconveniences of which we have had experience. To weigh with just and accurate balance the possible dangers and evils that might result from a change is a very different matter. They must be largely the subject of conjecture. The opinions of economists and men of experience in financial matters with respect to them have differed, and are likely to differ. Even if not prepared to rate them as high as some have done, we cannot question their reality.

The change proposed is tremendous, and we cannot but feel that to a great extent it would be a leap in the dark.

The public mind certainly is not prepared for it at present, and the very novelty of the proposal would excite apprehensions, which, in themselves, might not be without their danger.

We speak of the novelty of the proposal, because, though it has been for some years publicly advocated with great ability and earnestness, it has not found anything like general acceptance, and those accustomed to the existing system have often been disposed to put it aside as a chimerical proposal, unworthy of serious consideration.

Under all these circumstances, whilst fully impressed with the difficulties of the present situation, and more especially with those which affect the Government of India, we are not prepared to recommend that this country should proceed to negotiate with other nations a treaty embodying a bimetallic arrangement. We feel that the matter needs much more discussion and consideration in the financial world, and by practical men, than it has yet received, and that we are not in a position to advise with any confidence that the change could be made safely, or without the risk of creating evils exceeding those which we at present experience.

121. We have hitherto discussed the subject on the assumption of a bimetallic ratio approximating to the present market value of the metals.

We have now to state our objections to the proposal that this country should agree to a bimetallic arrangement with the old ratio of  $15\frac{1}{2}$  to 1, which differs so widely from the present market ratio.

Objections to reverting to the ratio of  $15\frac{1}{2}$  to 1.

It is said indeed by some of the advocates of bimetallism that this is the only ratio at which an international agreement could be secured. We do not think it falls within the scope of the reference to us to express any opinion upon the point; nor have we the materials for forming one.

But though we appreciate the difficulties there might be in inducing some nations to concur in any other ratio, it does not appear to us clear that when all the circumstances were considered, and future possibilities taken into account, they would necessarily reject a bimetallic ratio much more nearly approximating the present market ratio, if there were no hope of securing the result they desired.

122. Reverting to our objections to the ratio of  $15\frac{1}{2}$  to 1, we would observe that doubts may be entertained whether it would be possible to restore and maintain permanently a ratio so much at divergence with that which at present exists in the market.

Difficulty of maintaining a ratio so different from the existing market ratio.

Even if it be admitted, that supposing the Latin Union had continued acting as they did before 1873, silver would never have fallen to its present gold price, it does not necessarily follow that the divergence having arisen, and men's minds having been affected by it, a recurrence to the free coinage of silver, even within a more extended area, would necessarily restore the former conditions.

We do not, however, dwell upon this point, and will assume for the sake of argument that a stable ratio of  $15\frac{1}{2}$  to 1 could be maintained:

123. We will treat of the effect of a bimetallic system at such a ratio, first, upon the interests of this country, and next of India.

If the effect of the currency changes made by other nations within the last 20 years, coupled with the changes in the production of the precious metals, have produced an appreciation of gold resulting in a fall of prices, the result of adopting bimetallism at the suggested ratio would be to cause a rise in the price of these commodities, and thus, by an act of the State, to alter the relation of debtor and creditor, and of those who have entered into commercial contracts.

Effect of a ratio of  $15\frac{1}{2}$  to 1 on India.

This rise might be sharp and serious, and lead, as such rises not unfrequently do, to serious commercial confusion and disaster. It might also diminish the purchasing power of wages without, for a time at any rate, increasing their nominal amount.

124. Such a measure would be manifestly unjust. It may be said that it would only be reversing the process which has been going on; but those whose position has been altered by the fall of prices are not the same persons as those whose position would be affected by the rise; and it is one thing to have to submit to conditions which are the result of causes entirely outside the action of the State, and another to be called upon to endure loss resulting from its interposition.

Injustice of a measure effecting an artificial rise of prices.

125. We do not dispute that all monetary relations and liabilities are entered into and incurred subject to such alterations of the currency of the country as the public advantage may demand, and that to any inconvenience, resulting from a change dictated by those motives, the subjects of every country must be liable.

But so far as this change is advocated, as it is by many, on the very ground that it is calculated to raise prices, we should object strongly to State interference with the currency with any such object, and should think such artificial raising of prices an evil, even if the change were made for other reasons.

If currency changes need to be made for the public weal, inasmuch as they must involve inconvenience or loss to some, it appears to us that justice requires that the change should in nowise transcend the necessities of the case, and that the loss or inconvenience should be rendered as small as possible.

126. Even those who are not disposed to attribute the fall in the price of commodities which has marked recent years entirely, or to any great degree, to monetary changes must admit that such an alteration as that proposed would be likely for a time, if not permanently, to cause a serious disturbance of prices. The very fact that many people anticipate a great rise of prices from such a change would of itself tend, for a time, to bring about that result.

127. Another consideration which we think deserving of very great weight is this. If such a ratio were adopted, all the dangers to which we have drawn attention, as possibly connected with the adoption of a bimetallic system, even at the existing

Dangers already referred to would be

intensified  
by a ratio  
of 15½ to 1.

market ratio, would be much increased. The risk of a struggle for gold, of endeavours to accumulate that metal, of a temptation to break away from the agreement, and of the other causes of financial disturbance upon which we have dwelt, would be greatly intensified.

Effect upon  
England as  
a creditor  
country,

128. It must be remembered too that this country is largely a creditor country of debts payable in gold, and any change which entailed a rise in the price of commodities generally, that is to say, a diminution of the purchasing power of gold, would be to our disadvantage.

and upon  
the Colonies,

129. The interests of our Australian and other gold-producing Colonies, at which we have already glanced, must also be considered. Their deposits of gold are one of their principal sources of wealth, and any measure which tended to check gold-mining or to depreciate that metal would, in all probability, injuriously affect the prosperity of the Colonies, and re-act upon the trade of the mother country with them.

and upon  
the position  
of the  
Government  
of India.

130. Turning next for a moment to the special dangers to India, which might result from adopting this ratio, we would remark that although the Government of India would undoubtedly be a gainer, in so far as the burden of its gold debt would be diminished, yet there would be at least a serious risk of substantial mischief to the people of India.

If there be any truth in the theory that the fall in the gold price of silver has depressed gold prices, the silver price remaining stationary, we have pointed out our reasons for believing that it by no means follows that a rise in the gold price of silver would create an equal rise in the gold price of commodities. And if the gold price of commodities produced in India did not rise to the same extent as the price of silver, the Indian producer would receive a lower silver price for his commodities, while he would remain liable to the same taxes and charges as before. This would be the case also, if the view we have indicated be correct that the fall in the gold price of silver is due mainly to the depreciation of silver.

Any change having the effect of lowering silver prices, while taxes and charges remained unaltered, might occasion serious discontent, and if it were seen to be a consequence of political action, it might create political dangers as grave as any that are likely to result from a continuance of the present conditions.

Further, if it be true that cotton manufactures in India have been fostered and stimulated by the fall in silver, it would be a serious matter, and certainly likely to engender great discontent, if by an act of the State, the manufacturing industry thus created were seriously hampered if not destroyed.

131. We have already intimated our doubts whether the advantages to Indian producers, or the disadvantages to English producers, alleged to arise from recent currency changes have been proved; and our still greater doubts whether, if they do exist, they would be removed by taking measures to return to the *status quo*. But on the assumption that they would be so removed, we desire to express our opinion that, so far as the measure in question has this object in view, it would be questionable, in point of justice and policy, for this country to take from India by legislation any benefits the latter may have derived from changes in the value of precious metals which are in nowise due to such legislation.

Difficulties  
of the  
Government  
of India  
deserving  
of serious  
consideration.

132. Although we have not felt ourselves able to recommend that this country should enter into negotiations with the view of establishing a bimetallic system of currency, we have indicated that we are fully sensible of the considerations which have been urged by the Government of India; and we think that every proposal which seems calculated to diminish these difficulties, and to ease the existing situation, is deserving of very careful consideration, and that an earnest endeavour should be made to adopt any which should appear to promise substantial advantage without the risk of greater evils.

Remedies  
other than  
bimetallicism.

133. We have already given our reasons for thinking that some of the proposals presented to us, such as those discussed in §§ 167 and 168 of Part I., are impracticable, and it is not necessary to dwell further upon them.

The proposition to establish a gold standard in India is deserving of more serious consideration, but it cannot be disputed that there are formidable difficulties in the way of its adoption.

We think, however, that in the consideration of this, or any other proposal of Indian legislation, for removing the difficulties of that Government, the interests of India should alone be considered. While we cannot recommend that the mother country

should run any serious risk in altering its system of currency in order to assist the dependency, we think that the Government of the latter should be allowed a free hand to deal with the problem as it considers best in its own interest.

134. Before passing on to other proposals there is one which we recommend for adoption without hesitation.

We refer to the abolition of the duty on silver plate, to which we have drawn attention in §173. We do not suggest that it is likely to have any very extensive result, but, so far as it operated, it would be beneficial, and a step in the right direction.

Repeal of silver plate duty. Report, Part I.

135. We pass now to other proposals of a practical character.

In our opinion it might be worth while to meet the great commercial nations on any proposal which would lead to a more extended use of silver, and so tend to prevent the apprehended further fall in the value of that metal, and to keep its relation to gold more stable.

Negotiations with other countries with a view to a larger coinage of silver.

Such negotiations would probably be in the direction of an agreement that each nation should annually coin a certain amount of silver. It would not be essential to such a scheme that the amount fixed should be the same in every country, but the question might, no doubt, be raised in the negotiations for such an agreement that, in those countries where silver is not now legal tender to an unlimited amount, it should be made so to a greater extent than at present. Any such proposal would have to be considered in relation to the extent of the suggested increase and the amount of silver agreed to be coined.

136. The real difficulty of the present situation lies in the position of the Government of India on the one hand, and of the foreign nations whose currency consists in a large part of silver on the other.

The nations forming the Latin Union are large holders of silver, and are greatly interested in maintaining its value. It is possible, moreover, that India, in order to obviate the difficulties from which she at present suffers, may determine, as she has already proposed, to follow the example of the Latin Union and close her mints, a measure which would still further depreciate the value of silver.

If this course were adopted the States of the Latin Union, as large holders of that metal, might be seriously affected; and it is worthy of consideration whether foreign Governments might not be approached with a view to ascertain whether they would open their mints to a greater extent than at present to the coinage of silver, for a given term of years, on an undertaking from India that she would not close her mints during the same period. In order to assist such an arrangement we think that part of the bullion in the Issue Department of the Bank of England might be held in silver, as permitted by the Bank Act of 1844.

We are aware that a similar suggestion made in 1881 was not accepted, but the possibility that India may follow the example of the Latin Union in closing her mints may render the countries forming that combination more disposed to entertain the proposal.

137. We think that the best suggestion in relief of the tension of the existing situation is to be found in the issue of small notes based on silver. These might become the substitutes for the half-sovereign, and if they came into general use, they would afford a remedy for those difficulties in relation to that coin to which public attention has been prominently called.

Issue of small notes based on silver.

Twenty-shilling silver notes might also be issued. If these were put into circulation they would probably pass largely into use, without any alteration of the law of legal tender; and we are inclined to think the Mint or Bank might safely be required to issue such notes to some fixed amount, in exchange for silver bullion taken at the average market price; or the Government might issue them upon condition of retaining silver capable of being coined into an equal number of shillings. The market thus opened for silver might check the decline in price of the metal, besides producing an economy in the use of gold.

We are quite aware of the objection which has been taken to the issue of small notes on the ground of the great expense which would be incurred, if the system at present adopted by the Bank of England with reference to its existing bank notes were applied to these smaller issues, and of the danger of forgery if this system were not applied; but when we consider the enormous note circulation for small amounts current in the United States, we cannot but think that these apprehensions are excessive, and that the difficulties in the way of issuing such notes cannot be insuperable. The facts with regard to the issue of silver certificates in that country to which we have called

Experience of the United States in this respect.



attention in § 126 of Part I. of the Report, throw an important light upon the feasibility of the proposal we have been discussing.

138. Though unable to recommend the adoption of what is commonly known as bimetallism we desire it to be understood that we are quite alive to the imperfections of standards of value, which not only fluctuate, but fluctuate independently of each other; and we do not shut our eyes to the possibility of future arrangements between nations which may reduce these fluctuations.

One uniform standard of value for all commercial countries would no doubt, like uniformity of coinage or of standards of weight and measure, be a great advantage. But we think that any premature and doubtful step might, in addition to its other dangers and inconveniences, prejudice and retard progress to this end.

We think also that many of the evils and dangers which arise from the present condition of the currencies of different nations have been exaggerated, and that some of the expectations of benefit to be derived from the changes which have been proposed would, if such changes were adopted, be doomed to disappointment.

Under these circumstances we have felt that the wiser course is to abstain from recommending any fundamental change in a system of currency under which the commerce of Great Britain has attained its present development.

All which we humbly submit for Your Majesty's gracious consideration.

(Signed)      HERSCHELL.  
                   C. W. FREMANTLE.  
                   JOHN LUBBOCK.  
                   T. H. FARRER.  
                   J. W. BIRCH.  
                   LEONARD H. COURTNEY.

GEO. H. MURRAY, *Secretary.*

October 1888.

In signing this Report we must take exception to § 137. No evidence was taken by the Commission with reference to a small note issue, and numerous questions and doubts occur to us as to the soundness of such a scheme.

As the Report simply makes the suggestion without entering into details, we do not consider it expedient that two members of the Commission should set out the grounds of their dissent. We therefore confine ourselves to the simple statement that we do not agree with our colleagues on the above point.

With reference to § 135 we think that, if any change is introduced in the amount for which the silver coinage is made legal tender, the State should undertake to exchange it for gold, if required.

We feel also grave doubt as to § 107 of the foregoing Report. In France, as stated in § 124 of the main Report, the coinage of gold almost entirely ceased in 1841-45, and that of silver in 1861-65. The powerful combination known as the Latin Union, and comprising France, Italy, Belgium, and Switzerland, have not considered it possible to keep their mints open to the coinage of silver, and the ratio has fallen from  $15\frac{1}{2}$  to 1 to 22 to 1. We must, moreover, consider the very large use of gold in the arts, estimated in § 41 at upwards of 12,000,000*l.* a year.

No doubt the adhesion of England, Germany, and the United States, would be a very important addition of strength, and we do not deny that such a combination might for a considerable time be able to maintain the ratio adopted. Having regard, however, to the great uncertainty as to the probable future production of the mines, the large use of the precious metals in the arts, and to the number of countries which would still remain outside the combination, we doubt whether any given ratio could be permanently maintained.

This doubt seems to be supported by the view expressed in § 118 of the foregoing Report.

In considering the expediency of any international agreement, it must also be borne in mind that our banking arrangements and currency requirements are very different from those of other countries.

(Signed) JOHN LUBBOCK.  
J. W. BIRCH.

I wish to add for the sake, not of dissent, but of distinctness, that I do not believe that the change in the relations between gold and silver currencies has lowered English prices.

(Signed) T. H. FARRER.

## PART III.

1. We concur generally in that portion of the foregoing Report which is devoted to a statement of the facts relating to the subject of our inquiry, and of the various arguments which have been advanced in connexion with them.

2. We also concur in the opinion expressed in §§ 192-198 of Part I. of the Report, that the primary cause of the recent changes in the relative value of the precious metals is to be found in the abandonment, by the countries forming the Latin Union, of the free coinage of both metals into legal tender money at a fixed ratio.

Reasons  
for dissent-  
ing from  
Part II.

3. But in considering the extent of the evils or inconveniences which have resulted from this step, and the possibilities of removing them, as well as those which may be expected to arise in the future if no remedy is applied, the divergence of opinion between our colleagues and ourselves becomes so marked that we have felt it necessary to draw up a separate statement of the conclusions to which we have been led.

## EVILS ARISING FROM THE CHANGED RELATIONS OF THE PRECIOUS METALS.

Nature and  
extent of the  
evils arising  
from changed  
relations of  
gold and  
silver.

4. To the enumeration of these evils which is contained in §§ 4-16 of Part II. of the Report we have little to add.

They are:—

(a.) The evils arising from fluctuations in the relative value of the two metals, which—

- i. Hamper the course of trade between gold and silver using countries;
- ii. Stimulate abnormally the trade between silver-using countries to the prejudice of gold-using countries;
- iii. Discourage the investment of capital in—and consequently retard the development of—silver-using countries.

(b.) The evils arising from the progressive and continuous fall in the gold price of silver, which, by its effects upon the exchange between gold and silver using countries, places the producers and merchants in the former country at a disadvantage as compared with those in the latter.

(c.) The evils arising from a fall in the gold prices of commodities, so far as such fall is due to monetary causes.

(d.) The special evils which affect India.

5. From the Report of our colleagues we gather that in their view the existence of some of these evils may be considered as satisfactorily proved, but that as regards others, while admitting the serious character of the allegations which have been made, they do not by any means consider them to be proved, and they are consequently not prepared to express any decided opinion upon them.

We cannot therefore refrain from recording our conviction that the gravity of the evils above set forth has been much under-estimated in the foregoing Report, and that they do constitute such an impediment to the material prosperity both of this country and of India as urgently calls for a remedy.

*Evils arising from Fluctuations in the Relative Value of the Precious Metals.*

Fluctuations  
in exchange.

6. Taking first the evils resulting from fluctuations in the exchange between gold and silver using countries, we agree in the views expressed by our colleagues in § 9: "Everything which hampers complete freedom of commercial intercourse between two countries, or which imposes on it any additional burden, is undoubtedly an evil to be avoided or removed if possible. If therefore a remedy could be devised to accomplish this end without involving the risk of other disadvantages, there cannot be two opinions that it would be worth while to apply such a remedy."

We shall, at a later period, indicate a remedy which, in our opinion, fulfils the above condition.

*Evils affecting India.*

7. We also concur in the view taken by our colleagues of the gravity of the evils which affect the Government of India, and which they sum up in the following words (§ 102):— Position of India.

“We have no hesitation then in expressing the conclusion that the changes in the value of the precious metals are causing important evils and inconvenience to the Government of India, which are well worth the endeavour to remedy them, if a remedy can be devised which could be adopted without injustice to other interests, and without causing other evils or inconveniences equally great.”

8. It is, however, under the two remaining heads that the principal divergence between our colleagues and ourselves arises.

In our view a large proportion of the evil effects which are produced by changes in the relative value of gold and silver result from their action upon the international trade between gold and silver using countries.

*Evils arising from Fall in the Exchange between Gold and Silver using Countries.*

9. Any change in the relative value of the two metals must be accompanied by a corresponding change in the prices of commodities measured by them. Fall in exchange.

In the present case there has been a fall in the gold price of silver, and this has been accompanied by a general fall of gold prices in this country, where gold is the standard.

In India, on the other hand, where, in the opinion of nearly all the witnesses whom we have examined, the purchasing power of the rupee continues unimpaired, the prices of commodities measured in silver remain practically the same.

We have no evidence to show that silver has undergone any material change in relation to commodities, although it has fallen largely in relation to gold; in other words, the same number of rupees will no longer exchange for the same amount of gold as formerly, but, so far as we can judge, they will purchase as much of any commodity or commodities in India as they did before.

It is easy to perceive the effect which this fact must have on all transactions and remittances passing between the two countries, as well as on the interests of the producers and exporters of commodities in both.

It is commonly alleged that it gives to the Indian exporter of commodities to England an advantage over his competitor in England, which is said to be equal in effect to a bounty on his exports; while it places the English exporter of commodities to India at a disadvantage, which is said to be equal to the loss that he would suffer by the imposition of a corresponding duty on his exports.

We believe that, subject to the qualifications which we afterwards express, there is much force in both of these contentions.

The most familiar, and, perhaps, the simplest illustration of our meaning may be found in the effect of the exchange on the export of wheat from India, and on the relative position of the growers of that commodity in either country.

If, when the gold price of wheat is 40s. a quarter, the rupee, measured in gold, is worth 2s., the producer of wheat in India will receive 20 rupees for a quarter of wheat.

If the gold price of wheat then falls 25 per cent. to 30s. a quarter and the gold price of the rupee falls 25 per cent. to 1s. 6d., the Indian producer will still receive 20 rupees for his quarter, and they will purchase as much as they did before, because prices in India have remained practically the same.

The position of the English grower, on the other hand, is materially changed.

He will only receive 30s. instead of 40s., and unless all other prices have fallen in the same proportion, he must be a loser. And the precise measure of his loss will be the difference between the purchasing power of 30s. at the present time and the purchasing power of 40s. at the former period.

If then the English and the Indian producer were competing upon equal terms, before the fall in the exchange occurred, the result will be to largely reduce the profits of the former and to leave the latter exactly where he was before. He is able to take the lower price of 30s. a quarter for his produce, instead of 40s., without loss to himself, and the market price of wheat in England is thus unduly depressed.

A similar result ensues in the case of articles which are sent from England to silver-using countries, as for instance, in the case of cotton goods exported from Lancashire

to India, where the effect of the fall in exchange is equally injurious to the English manufacturer.

For example, cotton goods are sent to India, for which, in order to make a profit, the English exporter must receive a certain sum, say, 10,000*l.*

With the rupee worth 2*s.*, 10,000*l.* is realised by the payment of Rs. 100,000.

With the rupee at 1*s.* 6*d.*, Rs. 133,333 are required to realise that sum.

Will the Indian importer give this greatly increased price for precisely the same article as he bought before?

Obviously not, because prices in India, as we have seen, remain the same, and the English manufacturer is in consequence obliged either to take the same silver price as formerly, viz., Rs. 100,000, which means a greatly lowered gold price, viz., 7,500*l.*, or not to sell at all; and in either case he undergoes a loss which must be traced directly to the fall in the gold price of silver.

The industries which have suffered most from the fall in the exchange are naturally those which are most directly connected with the trade between gold and silver using countries, such, for example, as the cotton and the agricultural industries of the United Kingdom.

We are not prepared to say, and it is not our view, that the fall in exchange can operate permanently as a bounty on Indian exports, or as a protective duty against imports; but it is obvious—

First, that the loss which it occasions to the producer in gold-using countries, whatever that may be, must continue to operate until there has been a general adjustment of the prices of commodities, or in other words, until all prices and all the incidents of production have on an average fallen in the same proportion.

Secondly, that the measure of that loss is the difference between the purchasing power of the higher price received for commodities before the fall and that of the price received at present; and

Thirdly, that the date of such a general adjustment is uncertain, but will probably be remote, and may be postponed for an indefinite period of time.

#### *Evils arising from the Fall of Gold Prices.*

Fall in gold prices.

10. We have lastly to consider the evils arising from the fall in the gold prices of commodities.

The fact of a general fall of prices, or in other words, of an increase in the purchasing power of money in countries using a gold standard, can hardly be disputed. On this point we need only refer to the tables of index numbers given in § 49 of Part I. of the Report.

11. In § 47 of Part II. our colleagues express the view that “the greater part of the fall has resulted from causes touching the commodities rather than from an appreciation of the standard;” and again in § 99, “we believe the fall to be mainly due, at all events, to circumstances independent of changes in the production of, or demand for, the precious metals, or the altered relation of silver to gold.”

From this view we feel bound to dissent. The importance of the question, whether the incapacity of the existing stock of gold to meet the currency requirements of the world arises from the fact that those currency requirements are increasing through the growth of commerce and of population, or through the monetary policy of particular nations, may easily be exaggerated. In our opinion it is almost impossible to distinguish between these two sets of causes. A great increase in the production of commodities means a great increase in wealth, and would ordinarily be attended with an increased demand for the standard metal. The prices of some commodities would fall because they were produced in increasing quantities; the prices of commodities generally would tend to fall because there was an increased demand for the standard metal, and there are no means of saying how much of the alteration in price in any particular case is due to increased production and how much to increased demand for the standard.

In any case, however, we differ from the view taken by our colleagues, to which we have above referred, for the following reasons:—

In the first place we find no proof that the supply of commodities generally has increased, or that the cost of production has diminished at a greater rate in the years which have elapsed since the rupture of the bimetallic par than was the case in periods of like duration antecedent to that date.

On the contrary it would seem to be the case that it was immediately after, and no doubt in consequence of, the great discoveries of science, such as the inventions of steam, of electricity, the telegraph, &c., that the most marked advances in production were apparent.

The cost of production was lessened and the facilities were increased at that time by the introduction and the aid of machinery in a greater degree than they have ever been since then, and yet there is no record of any permanent or general fall in prices similar to that which is the subject of investigation now.

Secondly, if gold prices have fallen solely owing to increased supply of commodities, silver prices should have fallen to the same extent, which is not the case. And the possible contention that a similar fall in silver prices has been averted by increased supplies of silver seems to us to be inconsistent with the figures given in §§ 27 and 36 of Part I. of the Report, which show that, as regards countries outside of the United States, while the supply of gold has fallen off by 15,000,000*l.* yearly since 1866–70, the annual supply of silver has increased by less than 4,500,000*l.*

For these reasons we are unable to attach as much importance as our colleagues to the operation of causes affecting commodities in producing a general fall of prices, which is estimated to average about 30 per cent.; and we think it is incumbent upon those who take that view to explain why prices did not fall in a similar degree at the earlier periods to which we have referred.

We are not insensible to the fact that facilities for production are habitually increasing, and the cost of production is constantly becoming less. But these factors have always been in operation since the world began, and while we recognise their tendency to depress the prices of commodities, they are not, in our opinion, sufficient to account for the abnormal fall in prices, which has been apparent since the rupture of the bimetallic par, and only since that time.

Moreover, if industrial progress during the last 15 years has produced this enormous fall of prices, we ought to anticipate a further fall of equal magnitude as a consequence of industrial progress during the next 15 years. Is this a conclusion which we can accept; and, if so, can we contemplate it with equanimity?

Even assuming, then, that it is possible to maintain the distinction drawn by our colleagues, we are led to the conclusion that, while some effect is no doubt due to causes affecting commodities alone, it is to monetary causes that the larger share of the general fall must be ascribed; and a fall of prices from these causes we consider, for reasons given at greater length in § 94 of Part I., to be a serious evil.

In support of this opinion we may refer to the views which were expressed in the final Report of the Royal Commission upon the Depression of Trade in the following words, to which we think it is desirable to recall attention:—

“We expressed in our third Report the opinion that this fall in prices, so far as it has been caused by an appreciation of the standard of value, was a matter deserving of the most serious independent inquiry, and we do not, therefore, think it necessary to investigate at length the causes which have brought it about; but we desire to give it a leading place in the enumeration of the influences which have tended to produce the present depression.”

Under an appreciating standard, those who are enjoying acquired wealth benefit, for a time at least, at the expense of those who are acquiring it, and the active and enterprising members of society suffer. In this way we believe that an appreciating standard of value exercises an injurious effect on the rate of increase of the total wealth of the community.

12. There appears to us to be sufficient evidence (to which we shall refer later on when we deal in detail with the several questions contained in our order of reference) to show that the fall of prices and its resulting evils have affected all classes of the population (with the exception of those in the enjoyment of fixed incomes payable in gold), from the manufacturers and producers down to the wage-earners; but, in our opinion, it is the latter class which have the most direct and immediate interest in the adoption of any measure which will re-establish the comparative stability of the standard of value, such as it was before the recent divergence in the relative value of the precious metals.

#### EFFECTS OF THE CHANGES ON CERTAIN SPECIFIED INTERESTS.

13. Passing next to the effects of the changes which we have described upon the various matters and interests specified in our order of reference, we are directed in



Remittances  
of the  
Government  
of India.

the first place to consider their bearing upon the remittances of the Government of India.

We have already expressed our concurrence with the view taken by our colleagues of the difficulties arising under this head.

14. As regards "payments under old or fixed contracts," it is manifest that such contracts, if dating from a period antecedent to the fall in the gold price of silver, become more onerous at each successive stage of the fall, and that the burden of "new or current contracts" will increase in the same manner if the fall proceeds further.

In both cases the uncertainty attaching to the future must be a matter of great embarrassment to the Government; but it should be observed that in the case of new or current contracts, such as those for the purchase of commodities, which do not extend over any long period of time, the evil caused by the fall is mitigated, but only in so far as the prices of the commodities, in respect of which the contracts are made, have fallen as much as, or more than, the gold price of silver.

Private re-  
mittances  
from India.

15. "Persons in India who have to make remittances home in gold" have suffered in the same manner and to the same extent as the Government. Their remittances, when converted into gold, undergo an apparent loss at the present time of 30 per cent.

The loss is no doubt alleviated *pro tanto* by any fall in the gold prices of the articles or services for the purchase of which the remittance is employed; but we do not think that complete compensation is obtained in this way, and in comparison with persons receiving fixed salaries in this country, every person receiving a similar salary in countries where silver is the standard undoubtedly suffers a loss of about one-third on all sums which he remits home.

Where the remittance is made to cover a fixed charge, or to purchase commodities of which the gold price has not fallen, the loss is heavy.

When the rupee was worth 2s. a fixed charge of 100l. could be met by remitting Rs. 1,000. At the present time the amount required would be nearly Rs. 1,500, an increased burden on the remitter of 50 per cent.

16. We are next directed to consider the position of "the producers, merchants, and taxpayers of India."

Producers in  
India.

(a.) As regards the Indian producer, he gains through the operation of the causes set forth in § 9 of this Report; and he will continue to gain until all the incidents of production in gold-using countries shall have accommodated themselves to the new level of prices. On the other hand, both the producer and exporter in India must suffer from the uncertainty of the exchange with gold-using countries, resulting from variations in the relative value of the precious metals.

Merchants in  
India.

(b.) The position of the merchant in India does not seem to have been materially affected. So far as the export trade of the country may have been stimulated by the causes to which we have referred above, he has benefited. So far as the import trade may have been hampered by the operation of similar causes in the converse direction, he has sustained a loss.

But it cannot be doubted that, as in the case of the producer, the constant fluctuations in exchange must have introduced an element of risk and uncertainty into trade, which has been *pro tanto* prejudicial.

Indian tax-  
payers.

(c.) As regards the position of the taxpayer in India, it is obvious that the necessity of making increased remittances in discharge of gold debts compels the Government to maintain taxation above what it would be if no fall in the value of the rupee had taken place.

The taxpayer, therefore, considered exclusively as such, is a loser. He has to pay a larger number of rupees than he would if, instead of 1s. 4d., the rupees were worth 1s. 10½d. At the present rate of exchange the annual burden to India is represented by a sum of about five crores of rupees. This amount, constituting as it does about one-tenth of the total revenue, properly so called, of the Government of India, might either, if the rupee were at its former value, be remitted, thus relieving the people of India from a heavy amount of taxation, or be expended in the further promotion of public works, education, and other important measures for the improvement of the country.

This large sum has been sometimes represented as a loss to the Government, but not to the people of India. The distinction is, in our opinion, untenable. In every

country finance is the most important business of government. But in no country is it so important as in India. Yet in India we maintain a system of currency such that, in a time of comparative peace and growing commerce, its administration finds itself involved in as many financial uncertainties and embarrassments as if it were engaged in a costly war.

Again, it is sometimes said that the loss to India is nominal, and not real. But if, as we believe, the divergence in the values of the precious metals is due to an increase in the value of gold, the loss to India is most real. For she has to pay the same quantity of gold as before, and that quantity is worth more.

We find in consequence that, after repeated efforts to reduce expenditure, the Government of India have been at last compelled to resort to fresh taxation of an undesirable kind, in order to restore the financial equilibrium, and that, unless some improvement in this respect shortly takes place, it will become indispensable, in order to avert financial disorder, to adopt further measures, which are, in their opinion, open to grave objection, both on financial and political grounds.

We regret to add that however grave the present financial position of the Government of India may be, the future prospect is one which we cannot regard without far more serious apprehension.

We are very far from attempting even to form an opinion as to what the future relations of the two precious metals may be if they continue, as at present, without any fixed ratio between them; but it is impossible to shut our eyes to the possibility of a still further relative depreciation of silver or appreciation of gold, and a consequent increase of the difficulties by which the Government is now beset.

17. As regards the merchants and manufacturers at home who trade with India, we have already indicated in general terms the mode in which their interests are affected.

Merchants and manufacturers at home trading with India.

Both English and Indian producers have had to submit to a lower gold price in the English market; but as this lower gold price produces the same number of rupees as the higher gold price did before, the Indian producer has not suffered, while the English producer, from the causes previously mentioned, has undergone a loss.

To whatever extent this may have been the case, we think that the trade between the United Kingdom and India has been affected by the recent monetary disturbance; but, beyond this, we doubt whether any very marked effects have been produced by it, except so far as trade has been checked and restrained from its natural expansion by the uncertainties and insecurity which have doubtless exerted an unfavourable influence.

The large increase in this trade during the period under consideration is often adduced as a proof that no such adverse influence can have been in operation; but we think that this is sufficiently explained by other causes, such as the comparative prosperity of India, the development of her railway system, the abolition of import duties, which has practically made her a free port, the reduction in transport, and the facilities of communication with Europe due to the Suez Canal. We also think that, had it not been for the monetary disturbance, the trade would have assumed still larger dimensions.

18. Our attention is next directed to the effects of these changes upon the interests of the United Kingdom.

Trade of the United Kingdom with other silver-using countries.

As regards trade with silver-using countries other than India, we have only to point out that the views which we have expressed with regard to India are, so far as they concern trade, of general application to all silver-using countries; but we observe that, in marked contrast with our Indian trade, both the import and export trade with other silver-using countries appears to have declined in recent years.

One feature in this general decline of trade deserves special notice on account of its effect upon the manufacturing industry of Lancashire.

A serious check appears to have been given to the growth of the exports of cotton yarn to China and Japan, owing to the rapid increase in the exports from India to those countries. The facts are given in § 76 of Part I. of the Report, from which it appears that the exports from India increased, between 1876-77 and 1886-87, from 7,900,000 lbs. to 91,800,000 lbs., or about 1,058 per cent.; and the returns for 1887-8 show a still further increase. The exports from the United Kingdom, on the other hand, to China, Hong Kong, and Japan, increased steadily, between 1877 and 1881, from 33,000,000 lbs. to 47,400,000 lbs.; but from the latter year they declined to 26,900,000 lbs. in 1886, though they rose again slightly in 1887 to 35,350,000 lbs.

The competition of the Indian spinning mills of course makes itself felt in the home markets of that country ; and there is some evidence that our trade with the East in coarse yarns has entirely left us.

The natural advantages which India derives from being itself the country where the raw material is produced, and from her close proximity to the markets afforded by the silver-using countries in the East, are thus enhanced by the additional advantages derived from a common standard, free from the fluctuations to which the trade between India and gold-using countries is subject.

The divergence between the value of gold and silver, therefore, in practice constitutes an advantage to the producer in India, not only in so far as he produces for the markets of gold-using countries, but in so far as he competes with the manufacturers of those countries in the neutral markets of silver-using countries.

Foreign and internal trade of the United Kingdom.

19. But it is upon the foreign and internal trade of the United Kingdom, and the industrial condition of the country generally, that we think the recent currency changes have produced the most injurious results.

We must not, however, be understood as implying that in our opinion the depression which has affected the trade and industry of the country in recent years is entirely due to these changes. Other causes have no doubt been at work ; but we think that monetary causes have also operated to a considerable extent.

20. In our view the magnitude of the evil arising from the existing relations between the precious metals is due to the facts, (a) that the commerce of the world is now conducted under two distinct standards, instead of one as was formerly the case ; (b) that those two standards have, by being dissociated from each other, lost the important quality of relative stability ; and (c) that the effect upon the trade and industry of the United Kingdom has been that of an appreciating standard of value, which, for reasons above given, we consider to be a serious evil to the industrial and working classes. In this respect we are unable to draw any distinction between the foreign and the internal trade of the country ; the evils of an appreciating standard must obviously apply equally to both.

21. In regard to our foreign trade we would call attention to the falling off in value both absolutely and relatively to population.

This reduction of value would, of course, be immaterial if the cost of production had decreased in the same proportion, and if retail prices had followed the fall in wholesale prices. But this does not appear to have been the case.

Evidence of income tax returns.

22. The evidence of the income tax returns given in § 55 of Part I. of the Report points in the same direction. Notwithstanding a large increase both in population and in the production of nearly all commodities, the profits which come under the notice of the tax collector are scarcely larger than they were 15 years ago, and, what is more important, the rate of increase has materially fallen off.

From 1874 to 1886 the increase in the gross amount of property and profits assessed to income tax was not quite 15 per cent. In the preceding 12 years, from 1862 to 1874, the increase was 56 per cent.

Employment of labour and rate of wages.

23. Turning next to the employment of labour, we think that the Commission might with advantage have taken more evidence upon this subject, but we desire to call special attention to the evidence of Mr. Fielden, who, besides being personally acquainted with the condition of the labouring classes in the manufacturing districts of Lancashire and Yorkshire, was able to place before us much valuable information with regard to the employment of labour in the country, at large.

He has obtained statistics from 10 of the largest trades unions in the country with regard to the number of their members out of employment, and the amount of support given to them out of the society funds.

The result is, that while the average number of members in these societies in the years 1871-75 was 98,640, the average number out of work was 2,150, or 2·18 per cent., and the average cost 44,852*l.* per annum. In the years 1882-86, the number of members averaged 139,338, the number out of work 10,063, or 7·22 per cent., and the average cost 162,494*l.* per annum.

24. The general conclusions which we draw from his evidence are, not only that the rate of wages has fallen, but that the amount actually earned, even by those who

are nominally at work, has, owing to irregularity of employment, fallen in a still greater degree, and that the number of persons altogether out of employment has distinctly increased of late years.

The important question for the labourer is not what he earns per day or per week, but per year.

25. The reduction in profits and wages to which we have above alluded appears to us to be fully corroborated by the diminution in the purchasing power of the country shown in the statistics of our foreign trade.

In 1873 the total value of the imports into and exports from the United Kingdom was 21*l.* 4*s.* 1*d.* per head of population. In 1886 it was 16*l.* 17*s.*

If the fall in prices had been caused solely by reduced cost and increased supply, the money demand of the population should, in our view, have remained the same, and the total value of the trade should have been maintained.

26. We may here notice another important effect of an appreciating standard, which arises from the increased burden of all fixed charges payable in gold, such as the National Debt, perpetual debentures, leases for long terms of years, annuities, pensions, and other similar charges which cannot be reduced or terminated. With every rise in the value of gold the weight of this burden upon the industry of the country increases. Increasing burden of fixed gold charges.

The loss to the nation at large under this head must be of a most serious kind, the only class which benefits being the small number of annuitants, estimated at 250,000.

27. We wish to direct attention also to another consequence which has resulted from the rupture of the bimetallic par, and the unsettled relations between the two metals. Check to free trade policy.

We refer to the check which has been given to the free trade policy, and the tendency to reactionary legislation in favour of protection, which have been manifested in recent years, and to which, we think, the cause in question has largely contributed.

A period of falling prices is always unfavourable to the removal of commercial restrictions and of protective duties; and in the present case this general depression has been aggravated in the gold-using countries by the advantages in competition which have been enjoyed by silver-using countries, in the manner which we have explained in § 9 of this Report. So long as unequal conditions of production and exchange are created and fostered by monetary legislation, it will be difficult to prevent attempts to counteract their effects by protective or countervailing tariffs.

On the other hand, the financial embarrassment which has been created in British India must raise the question of a return, for revenue purposes, to the system of import duties which was abolished with such successful results in 1879 and 1881, and which, it was thought, was finally removed from the path of Indian progress.

The interests of any country which is committed to a free trade policy are especially and deeply interested in removing, so far as it lies in her power, a cause which operates in making the abandonment of a protective system more and more difficult by other countries; and it appears to us that the adoption of a common international standard of value is an essential condition of the fulfilment of this policy.

28. We think that the above remarks upon the evils affecting both the United Kingdom and India, if taken in connexion with the more detailed statement in Part I. of the Report, will sufficiently indicate our view as to their nature and gravity; and that they are largely due to the currency changes which have taken place in the years immediately preceding and following 1873.

We think that too much stress cannot be laid upon the novelty of the experiment which has been attempted as the result of the above changes. That experiment consists in the independent and unregulated use of both gold and silver as standards of value by the different nations of the world.

We are strongly of opinion that both metals must continue to be used as standard money; the results of using them separately and independently since 1873 have been most unsatisfactory, and may be positively disastrous in the future.

It cannot be questioned that until 1873 gold and silver were always effectively linked by a legal ratio in one or more countries.

It is equally indisputable that the relative value of the two metals has been subject to greater divergence since 1874 than during the whole of the 200 years preceding that

date, notwithstanding the occurrence of variations in their relative production more intense and more prolonged than those which have been experienced in recent years.

29. In 1873-74 the connecting link disappeared, and for the first time the system of rating the two metals ceased to form a subject of legislation in any country in the world.

The law of supply and demand was for the first time left to operate independently upon the value of each metal; and simultaneously the ratio which had been maintained, with scarcely any perceptible variation, for 200 years, gave place to a marked and rapid divergence in the relative value of gold and silver, which has culminated in a change from  $15\frac{1}{2}$  to 1 to 22 to 1.

#### PROPOSED REMEDY.

Proposed  
remedy—  
international  
bimetallism.

30. It appears to us impossible to attribute the concurrence of these two events to a merely fortuitous coincidence. They must, in our opinion, be regarded as standing to each other in the relation of cause and effect.

We cannot, therefore, doubt that if the system which prevailed before 1873 were replaced in its integrity, most of the evils which we have above described would be removed; and the remedy which we have to suggest is simply the reversion to a system which existed before the changes above referred to were brought about; a system, namely, under which both metals were freely coined into legal tender money at a fixed ratio over a sufficiently large area.

The effects of that system, though it was nominally in force only within a limited area, were felt in all commercial countries, whatever their individual systems of currency might be; and the relative value of the two metals in all the markets of the world was practically identical with that fixed by the legislation of the countries forming the Latin Union.

As regards the possibility of maintaining such a system in the future, we need only refer to the conclusion at which our colleagues have arrived in § 107 of Part II. and with which we entirely agree, namely, that "in any conditions fairly to be contemplated in the future, so far as we can forecast them from the experience of the past, a stable ratio might be maintained if the nations we have alluded to were to accept and strictly adhere to bimetallism at the suggested ratio. We think that if in all these countries gold and silver could be freely coined, and thus become exchangeable against commodities at the fixed ratio, the market value of silver as measured by gold would conform to that ratio, and not vary to any material extent."

We also agree generally with the views expressed by our colleagues in §§ 109 and 110 as to the extent to which such a system, if adopted and maintained, would remedy the evils complained of; and we would call attention to the additional advantages referred to in §§ 111 and 119 as likely to accrue from the adoption of an international bimetallic system of currency.

Answers to  
objections  
which have  
been urged.

31. It only remains for us, therefore, to give our reasons for thinking that our colleagues have attached undue importance to the several objections which have been urged against the proposed change. These objections are as follows:—

(i.) That "the change proposed is tremendous," and that its "very novelty would excite apprehensions which in themselves might not be without their danger."

To this we reply that the system of currency which we recommend was in existence in other countries for many years before 1873, and its effects practically extended to all the commercial countries of the world. We are not aware that so long as it was maintained in its integrity any evil results ensued. The only novelty in our proposal is that the United Kingdom should join with the other countries specified below in § 35 in re-establishing a bimetallic system. We are therefore unable to understand how, in view of the experience of the past, any ground for serious apprehension can exist.

(ii.) That the position of the United Kingdom, and especially of London, as the commercial or financial centre of the world, would be endangered.

This position, it is urged, is due to the fact that the standard of value in this country is a definite quantity of a particular metal, and that persons entering into transactions, expressed in pounds sterling, consequently know with absolute certainty what it is that they will have to give or receive. This certainty, it is said, would disappear if an option were given to debtors, as is proposed under the bimetallic system, of tendering either one of two metals.

To this we reply—

(a.) That the commercial and financial pre-eminence of London dates back to a period anterior to the establishment of the single gold standard in this country, and a period when, as a matter of fact, the currency of the country was bimetallic;

(b.) That if the transactions of other countries are now largely carried out by means of bills drawn upon London, it is because London is, for many reasons, the best market for such bills, and that this fact is not likely to be affected by our joining with other nations in a common system of currency;

(c.) That the option conceded to debtors under the bimetallic system could rarely have any practical effect, inasmuch as if that system were established and maintained in its integrity, there would be no appreciable inducement to select one metal rather than the other.

(iii.) That if bimetallicism resulted in a fall in the value of gold, England as a country entitled to receive large gold payments would lose, and other countries would gain at her expense.

In reply to this objection we need only refer to the arguments stated in § 96 (k.) of Part I. of the Report, to which we have nothing to add.

(iv.) That the bimetallic system depends for its successful working upon international support, and that, for adequate or inadequate reasons, other nations would, sooner or later, cease to adhere to it.

To this we reply (a) that no sufficient motive can be suggested for the secession of any of the contracting powers; (b) that provided the system was maintained over a sufficiently large area the secession of one or more powers would not be of vital importance; (c) that in any case the seceding power would cause more injury to its own subjects than to those of other countries; and (d) that such an objection applies with equal force to all international agreements.

(v.) That the tendency, which is observable among the more civilised nations, to use gold rather than silver, would be likely, notwithstanding the existence of a bimetallic system, to encourage the accumulation of that metal, and the creation of an agio upon it, which would thus disturb the ratio fixed by law between the two metals.

To this we reply that the tendency above mentioned is mainly the result of the apprehensions and uncertainty attending upon the existing relations between the two metals; and that all inducement to accumulate gold would cease with a return to a stable ratio of value between them.

(vi.) That there might be a tacit refusal of the people of a country to accept both metals as legal tender, and that contracts would be largely made in one of the two metals only.

The question raised in this objection is rather a matter of opinion than of argument, and we can only say that we do not share the apprehensions of those who foresee any serious difficulty arising from such a course.

Even if it be admitted that it would be largely adopted we do not think that, so long as the legal ratio between the two metals continued in force, any real difficulty could occur.

But we may point out that the objection appears to assume, what has, of course, never been suggested, that the bimetallic system could be introduced into a country without the consent of those sections of the population who would be most interested in the adoption of such a change. We are satisfied that no such measure as the introduction of the double standard could be passed into law in this country at least, without such an amount of popular support as would practically prevent the possibility of the adoption of such a course as is supposed in the objection we are noticing.

(vii.) That if debts contracted in gold could be paid in silver, the claims of all creditors would unjustly suffer, and that the adoption of a bimetallic system would thus amount to a breach of faith.

This last objection is that which appears to us to call for the most serious consideration, and we are not disposed to underrate its importance.

If it be right that a government should adopt and impose upon its people a legal standard of value, it is clearly its duty to provide, as far as possible, that such standard shall not be wanting in its most essential attribute, viz., that of the greatest attainable stability.

Recent experience has shown that by the monetary policy of Germany, the Latin Union, and the United States, over which this country had no control, the standard of value in the United Kingdom has been gravely impaired and its future stability, as well as that of the silver standard of India, seriously endangered.



In these circumstances it is evident that if the Government, by its direct action in changing the standard, injured the interests of creditors and disturbed existing contracts, it may, by abstaining from action, injure the interests of debtors to an equal or greater extent, and affect future contracts.

It appears to us that if it is wrong in a government to make any change in its standard of value on the ground that it would disturb the relations of debtors and creditors, it must be equally wrong to abstain from any action which it is in its power to take, by which a disturbance in those relations may be averted.

But it is essential to observe that this objection, whatever force attaches to it, is not directed against the policy of bimetalism as such, but merely against the return to the ratio of  $15\frac{1}{2}$  to 1, or some other ratio differing much from the current relative value of gold and silver.

It must also be recollected that it cannot be urged by those who have insisted that the fall in prices is due to causes primarily affecting commodities, and not to the appreciation of gold. If the rupture of the bimetallic par has not led to the appreciation of gold and to a fall in prices, there appears to be no sufficient reason for supposing that its renewal would affect the value of gold or cause a rise in prices.

32. For these reasons we do not think that, after giving due weight to the foregoing objections, they are such as ought to be allowed to stand in the way of such a policy as we are prepared to recommend.

Neither metal alone exists in sufficient quantity to serve as a sole standard without causing such a change in the level of prices as to amount to a financial and commercial revolution; but we cannot doubt that if a sufficiently wide area of agreement between the leading commercial countries can be secured, this most important result may be effectually attained, and a great international reform successfully accomplished.

Dangers likely to arise if no remedy is applied.

33. Further, we are strongly impressed with the conviction that whatever evils may be expected to flow from a return to the *status quo ante*, the evils both present and prospective of the existing situation are infinitely more serious.

Failing any attempt to re-establish the connecting link between the two metals, it seems probable that the general tendency of the commercial nations of the world will be towards a single gold standard.

Any step in that direction would, of course, aggravate all the evils of the existing situation, and could not fail to have a most injurious effect upon the progress of the world.

A further fall in the value of silver might at any moment give rise to further evils of great and indefinite magnitude in India, while a further rise in the value of gold might produce the most serious consequences at home.

Main features of proposed remedy.

34. No settlement of the difficulty is, however, in our opinion, possible without international action.

The remedy which we suggest is essentially international in its character, and its details must be settled in concert with the other Powers concerned.

It will be sufficient for us to indicate the essential features of the agreement to be arrived at, namely—

- (1.) Free coinage of both metals into legal tender money; and
- (2.) The fixing of a ratio at which the coins of either metal shall be available for the payment of all debts at the option of the debtor.

35. The particular ratio to be adopted is not, in our opinion, a necessary preliminary to the opening of negotiations for the establishment of such an agreement, and can, with other matters of detail, be left for further discussion and settlement between the parties interested.

We therefore submit that the chief commercial nations of the world, such as the United States, Germany, and the States forming the Latin Union, should in the first place be consulted as to their readiness to join with the United Kingdom in a conference, at which India and any of the British Colonies which may desire to attend should be represented, with a view to arrive, if possible, at a common agreement on the basis above indicated.

Other remedies suggested.

36. We have indicated what appears to us to be the only permanent solution of the difficulties arising from the recent changes in the relative value of the precious metals, and the only solution which will protect this and other countries against the

risks of the future. At the same time we approve the recommendations of our colleagues in §§ 134–137.

We do not attach much importance to their probable direct effects; but their influence at the present time would be beneficial, while their adoption would place no obstacle in the way of a more satisfactory solution at a future date, and might possibly facilitate it.

All which we submit to Your Majesty's gracious consideration.

• • (Signed) LOUIS MALLET.  
ARTHUR JAMES BALFOUR  
HENRY CHAPLIN.  
D. BARBOUR.  
W. H. HOULDSWORTH.  
SAMUEL MONTAGU.

GEO. H. MURRAY, *Secretary*.  
October 1888.

### Note by Sir Louis Mallet.

1. I have signed the foregoing Report (Part III.) because I concur generally in its conclusions and recommendations, but as it does not adequately represent the reasons which have led me to their adoption, and still less the reasons which have obliged me to dissent from the main conclusions of Part II., I add the following supplementary observations :—

2. The facts as to the recent changes in the relative value of the precious metals have been as fully set forth in the General Report as the circumstances of the case appear to require.

3. In considering their nature and causes three alternatives are presented in the order of reference :—

There may have been—

- (a.) A depreciation of silver;
- (b.) An appreciation of gold;
- (c.) A combination of both causes.

4. I must here observe that it is necessary to distinguish between the terms "appreciation" and "depreciation," as applied to the precious metals in their relation to each other, and in their relation to commodities.

To whatever cause it is to be attributed, the relative value of the two metals to each other had not for many years previous to 1874 been subject to much variation; and in their relation to commodities they have therefore risen and fallen together, with a corresponding but converse fall or rise in the gold and silver prices of commodities.

It has, therefore, been customary, in speaking of the appreciation or depreciation of the precious metals, to consider their relation to commodities, and not to each other.

5. But although any divergence in value between gold and silver must be represented by an equal divergence between gold and silver prices, it is evident that in such a case either metal may appreciate or depreciate in relation to the other, while undergoing no change in relation to commodities.

It becomes necessary, therefore, from this point of view, in order to ascertain the effect of such divergence upon the relation of either metal or of both to commodities, to consider separately the cause or causes of the divergence between the two metals "inter se," and the cause or causes of the divergence between gold and silver prices.

6. With respect to the relations of the metals *inter se*, I agree in the conclusion stated in paragraphs 188–195 of Part I. of the Report, that the primary cause of the recent changes is to be found in the abandonment by the countries forming the Latin Union of the free coinage of both metals into legal tender money at a fixed ratio.

7. I am unable to believe that the increased supply of silver and the diminished supply of gold during recent years could have caused the divergence in value between gold and silver which has taken place if that system had been maintained.

Changes in the supply of the two metals of much greater magnitude in former times do not appear to have had an important influence in controlling their relative value; and in support of this view I need not do more than refer to the following figures taken from § 21 of Part I. of the Report.

**RELATIVE VALUE of PRODUCTION and MARKET PRICE of GOLD and SILVER in the under-mentioned periods.**

Period.	Ratio of Value of Production.		Ratio of Market Value.	
	Silver.	Gold.	Silver.	Gold.
1801-10	3·227	to 1	15·61	to 1
1811-20	3·048	" 1	15·51	" 1
1821-30	2·055	" 1	15·80	" 1
1831-40	1·865	" 1	15·75	" 1
1841-50	·899	" 1	15·83	" 1
1851-55	·288	" 1	15·41	" 1
1856-60	·292	" 1	15·30	" 1
1861-65	·386	" 1	15·40	" 1
1866-70	·44	" 1	15·55	" 1
1871-75	·710	" 1	15·97	" 1
1876-80	·794	" 1	17·81	" 1
1881-85	1·030	" 1	18·63	" 1
1888	—		22	" 1

It will be observed that during the first 70 years of the century, although the quantities of the two metals produced varied in relative value from 3·227 to 1 to 44 to 1, their value in the market varied only between 15·41 to 1 and 15·83 to 1; but between 1870 and 1885, with much less marked variations in relative production, the relative value of the two metals in the markets fell from 15·55 to 1 to 18·63 to 1, and at the time we write it is nearly 22 to 1.

In the face of these facts it appears to me impossible to attribute the divergence of value between gold and silver to the comparatively slight change in the conditions of supply, irrespective of the altered conditions of demand.

*Demand.*

8. The demand for gold and silver largely depends upon their use as "money" in its several functions, and for this purpose both metals have hitherto been found, and probably will continue to be found, indispensable, from the diversity of their uses, and also from the insufficiency in quantity of either one, or the other, alone.

The distribution of these two metals between the nations of the world has been determined by various considerations; but as one of the most important of their uses as money has been to serve as a standard measure of value with free mintage, or liable only to a seignorage representing its cost, it is obvious that the selection of one or the other for this purpose has exercised a direct influence on the value of the metal so selected.

Until recently the attempt has never been abandoned, either by the separate action of particular countries, or by a group of States such as that of which the Latin Union is composed, to neutralize, as far as possible, the evils and inconveniences of two standards of value with no connecting link between them, by establishing a fixed legal ratio of weight, at which they should always be exchangeable one for the other.

It may be stated generally that during the last century the national unit of coinage which constituted the standard of value in the principal countries practically rested on both metals, silver being usually the nominal standard with gold rated to it, at the discretion of each Government.

In the United Kingdom, from 1717 to 1816, this system prevailed, the ratio of gold to silver having been fixed at 1 to 15·21.

In the United States of America the double standard was originally adopted in 1786 with a ratio of 1 to 15·25; changed in 1792 to 1 to 15, and in 1834 to 1 to 16.

In 1803 the double standard, with a ratio of 15½ to 1, was definitively adopted by France, and in 1865 the formation of the Latin Union, ultimately consisting of France, Italy, Belgium, Switzerland, and Greece, extended and confirmed it.

The changes in monetary policy which have taken place during the last 15 years, both in Europe and in the United States of America, have on the one hand largely increased the area in which gold is used as a standard of value, while diminishing that in which silver is so used, and on the other, by entirely removing the restraining influence of legislation on the relations of the two metals, have left the law of supply

and demand to operate independently on the value of each, instead of setting in motion a compensatory or equilibratory action upon both.

The effect has, in my opinion, been to cause an increased demand for gold and a relatively diminished demand for silver.

9. An examination of the international movements of gold and silver during recent years appears to support this view.

In dealing with the statistics of the export or import of the precious metals, it must be recollected that they are necessarily imperfect, and that no reliance can be placed upon any apparent movements, which are not of considerable magnitude, distinct and well-defined, but they nevertheless afford general indications of much significance.

10. It will be convenient to give the first place to the United States.

Average of the Financial Years.				Net Imports of Gold.	Net Exports of Gold.
				Dollars.	Dollars.
1851-55*	-	-	-	—	34,280,000
1856-60*	-	-	-	—	49,204,000
1861-63*	-	-	-	—	19,498,000
1864-70	-	-	-	—	47,689,000
1871-75	-	-	-	—	40,926,000
1876-80	-	-	-	11,750,000	—
1881-85	-	-	-	21,070,345	—

\* Includes silver, but to the end of 1860 the amount was mainly gold.

The evidence in this case is most remarkable. Up to 1876 the United States yearly supplied large quantities of gold to the rest of the world. Since 1876 she has been receiving gold from other countries. The influence which stopped the flow of gold from the United States, and reversed the direction of the current, had its origin in that country. It was therefore a new demand for gold, and must have tended to raise the value of gold.

Let us now consider England:—

Average for the Years				Net Imports of Gold.	Net Exports of Gold.
				£	£
1858-60	-	-	-	3,795,000	—
1861-70	-	-	-	5,546,000	—
1871-76	-	-	-	3,345,000	—
1877-80	-	-	-	—	1,400,000
1881-85	-	-	-	—	468,000
1886	-	-	-	—	391,460

The evidence in the case of England is just as distinct as it is in the case of the United States. Up to the end of 1876 there was a large and continuous flow of gold into the country; since 1876 the supply has ceased, and England has been losing gold.

Next as to France:—

Average for the Years				Net Imports of Gold.	Net Exports of Gold.
				Francs.	Francs.
1851-60	-	-	-	318,435,000	—
1861-70	-	-	-	191,014,000	—
1871-73	-	-	-	—	125,115,000
1874-78	-	-	-	415,472,000	—
1879-84	-	-	-	—	70,696,000

Dr. Soetbeer has given grounds for doubting the accuracy of the French statistics of the import and export of the precious metals; but, allowing for the disturbance caused by events in connexion with the Franco-German war, the flow of bullion is in harmony with what we observe in the case of England, and the features of the change are so marked that we may feel sure that, though they might be modified, they would not be obliterated, if more accurate statistics were available.

In the case of Germany the figures given are those of the German Customs District, which are acknowledged not to be complete, but are nevertheless significant:—

Average of Years.	Net Imports of Gold.	Net Exports of Gold.
	Marks.	Marks.
1872-79	68,126,000	—
1880-85	—	11,483,000

For the other nations it is unnecessary to give figures in detail. Italy took special measures to accumulate gold, which has since shown a tendency to leave that country. Austria-Hungary has also accumulated gold, and so have the Scandinavian countries. In all these cases the flow of gold was intended to meet a new demand, and its influence would be in the direction of lowering prices.

Let us now turn to the East, and consider the evidence of the flow of silver to and from those countries.

11. Mr. Giffen of the Board of Trade has given the following table, showing the imports and exports of silver into and from China in her trade with the United Kingdom, France, British India, and the United States:—

Year.	Net Imports of Silver.	Net Exports of Silver.
	£	£
1862	2,598,000	—
1864	2,080,000	—
1865	1,131,000	—
1866	—	3,180,000
1867	—	3,967,000
1868	—	2,403,000
1869	—	43,000
1870	—	2,943,000
1871	—	3,637,000
1872	—	745,000
1874	141,000	—
1875	2,064,000	—
1876	3,806,000	—
1877	5,348,000	—
1878	3,254,000	—
1879	—	29,000
1880	—	189,000
1881	1,581,000	—
1882	—	110,000
1883	1,205,000	—
1884	2,105,000	—

It will be seen that the direction of the current was reversed after 1872; China was losing silver up to 1872, and after that year she began to import it. The change appears to indicate the effect both of the reduced demand for silver elsewhere, and of its increased production.



The figures of the net imports of silver into India are as follows :—

Years.		Net Imports of Silver.	Years.		Net Imports of Silver.
		Rs.			Rs.
1855-56	- - -	82,000,000	1870-71	- - -	6,000,000
1856-57	- - -	111,000,000	1871-72	- - -	65,000,000
1857-58	- - -	122,000,000	1872-73	- - -	7,000,000
1858-59	- - -	77,000,000	1873-74	- - -	25,000,000
1859-60	- - -	111,000,000	1874-75	- - -	46,000,000
1860-61	- - -	53,000,000	1875-76	- - -	16,000,000
1861-62	- - -	91,000,000	1876-77	- - -	72,000,000
1862-63	- - -	126,000,000	1877-78	- - -	147,000,000
1863-64	- - -	128,000,000	1878-79	- - -	40,000,000
1864-65	- - -	101,000,000	1879-80	- - -	79,000,000
1865-66	- - -	187,000,000	1880-81	- - -	39,000,000
1866-67	- - -	70,000,000	1881-82	- - -	54,000,000
1867-68	- - -	56,000,000	1882-83	- - -	75,000,000
1868-69	- - -	86,000,000	1883-84	- - -	64,000,000
1869-70	- - -	73,000,000	1884-85	- - -	72,000,000

It will be observed that there was a distinct falling-off in the imports of silver between 1870 and 1876, and a subsequent increase, but some explanation is necessary to show the true significance of the figures. During a portion of the time for which the figures of import of silver are given, there was an immense increase in the demand for Indian cotton, arising from causes connected with the American war, payment for which was largely taken in silver. There was also heavy borrowing in England on account of the mutiny and of the extension of public works by the Government in India, which had the effect of reducing for the time the remittances from India on public account. But taking into our account the 10 years immediately preceding 1874 and those which have followed, it will be found that the average net imports of silver in both periods is, as nearly as possible, the same, viz., about  $7\frac{1}{2}$  millions sterling.

It may be inferred from this fact that these imports have been larger than they would have been had not the par been broken, if indeed there might not have been an export of silver to Europe.

The continued magnitude of the imports of silver into India is in harmony with what has occurred in China, and it presents a marked contrast to the movements of gold in Europe.

12. It must be borne in mind that the withdrawal of inconvertible paper in France and the United States during recent years must necessarily have had a considerable effect in contracting the currencies of the world, and that owing to the change in monetary policy to which we have adverted, the demand for metallic money caused by these resummptions of specie payments fell mainly upon gold, instead of falling, as would formerly have been the case, upon both metals.

13. I think, therefore, that the recent changes in the relative value of the precious metals *inter se*, although probably to some extent due to a diminished demand for silver, are mainly due to an increased demand for gold. I believe it to be impossible to determine in what proportions the two causes have operated.

#### *Causes of changes in Gold and Silver prices.*

14. But the main practical interest of the question we are examining is derived from the fact that gold and silver are used as standard measures of value, and that any divergence in their relation to each other must be attended by an equal divergence between the things respectively measured by them. The more important part of our inquiry, therefore, relates to the cause or causes of the divergence between gold and silver prices.

15. This divergence may have arisen from either of the two following causes :—

- (a.) A divergence between gold and silver solely due to a change in their relative value, *inter se*.
- (b.) A simultaneous change affecting commodities, in combination with the former cause.

For instance, gold and silver may have diverged in value relatively to each other (say) 30 per cent., from a rise in gold and a fall of silver of 15 per cent. respectively.

But the corresponding divergence in gold and silver prices may have arisen either from this cause alone, or from a rise or fall in commodities co-extensive with the rise in gold, or the fall in silver, viz., 15 per cent.

If due to the first cause alone, gold would have appreciated and silver depreciated, in relation to commodities, 15 per cent., while gold prices would have fallen and silver prices risen 15 per cent.

But if due to the second cause, or combination of causes, either gold would not have appreciated, nor gold prices fallen, while silver would have depreciated 30 per cent., and silver prices risen 15 per cent. from causes affecting silver, and 15 per cent. from causes affecting commodities, or, silver would not have depreciated, nor silver prices risen, while gold would have appreciated 15 per cent. from causes affecting gold, and 15 per cent. from causes affecting commodities.

It is therefore necessary, in order to ascertain the operation of these two sets of causes in the present case, to trace the course of both gold and silver prices during the period of the divergence.

### Gold.

16. First, then, as regards gold prices. It might perhaps be sufficient to refer to the conclusions of the Royal Commission on the Depression of Trade, and to the evidence by which they are supported as to the fall in gold prices in recent years, but an independent examination of the various estimates by competent statisticians shows that while differing in some important respects, and in the evidence which they afford as to the degree and extent of the fall, there is a remarkable concurrence of testimony that the period under review has been characterised by a marked reduction of gold prices affecting most important commodities, and especially the great staples of wholesale international trade.

Irrespective of these estimates, the statistics of quantities and values of the imports and exports of the United Kingdom, published by the Board of Trade, appear to me to place the question beyond the reach of controversy as regards this country, and similar evidence is afforded by the trade accounts of other countries (France, Germany, United States of America, and Italy).

## UNITED STATES.

SUMMARY TABLE comparing the progress of IMPORTS and EXPORTS as stated in MONEY in the UNITED STATES with the progress of ENTRIES and CLEARANCES of SHIPPING.

(Compiled from Tables, p. 177 *et seq.* of Appendix to First Report of Royal Commission on Trade Depression, continued to date.)

	Imports per Head of Population.		Exports per Head of Population.		Entries and Clearances of Shipping.	
	Amount.	Increase or Decrease on previous Period.	Amount.	Increase or Decrease on previous Period.	Tons per Head.	Increase or Decrease on previous Period.
	£ s. d.	Per Cent.	£ s. d.	Per Cent.	Tons.	Per Cent.
1855-59	1 17 8	—	1 13 7	—	0·44	—
1860-64	1 14 10	— 7·52	1 7 3	— 18·86	0·47	+ 6·82
1865-69	1 18 2	+ 9·57	1 3 7	— 13·46	0·40	— 14·89
1870-74	2 18 7	+ 53·49	2 9 11	+ 111·66	0·57	+ 42·50
1875-79	2 2 5	— 27·60	2 16 3	+ 12·69	0·62	+ 8·77
1880-84	2 15 7	+ 31·04	3 5 11	+ 17·19	0·68	+ 9·68
1885-87 (3 years only.)	2 11 7	— 7·20	2 18 0	— 12·01	0·62	— 8·82

## FRANCE.

SUMMARY TABLE comparing the progress of IMPORTS and EXPORTS as stated in MONEY in FRANCE with the progress of ENTRIES and CLEARANCES of SHIPPING.

(Compiled from Tables, p. 177 *et seq.* of Appendix to First Report of Royal Commission on Trade Depression, continued to date.)

	Imports per Head of Population.		Exports per Head of Population.		Entries and Clearances of Shipping.	
	Amount.	Increase or Decrease on previous Period.	Amount.	Increase or Decrease on previous Period.	Tons per Head.	Increase or Decrease on previous Period.
	£ s. d.	Per Cent.	£ s. d.	Per Cent.	Tons.	Per Cent.
1855-59 - -	1 18 4	—	2 1 11	—	0·28	—
1860-64 - -	2 9 1	+ 28·04	2 11 4	+ 22·46	0·26	+ 13·04
1865-69 - -	3 2 8	+ 27·67	3 2 11	+ 22·57	0·33	+ 26·92
1870-74 - -	3 15 8	+ 20·75	3 15 0	+ 19·21	0·41	+ 24·24
1875-79 - -	4 6 7	+ 14·43	3 14 11	— 0·11	0·52	+ 26·83
1880-84 - -	5 1 4	+ 17·04	3 13 5	— 2·02	0·69	+ 32·69
1885-87 - - (3 years only.)	4 6 0	— 15·13	3 6 10	— 8·97	0·70	+ 1·45

## GERMANY.

SUMMARY TABLE comparing the progress of IMPORTS and EXPORTS as stated in MONEY in GERMANY with the progress of ENTRIES and CLEARANCES of SHIPPING.

(Compiled from Tables, p. 177 *et seq.* of Appendix to First Report of Royal Commission on Trade Depression, continued to date.)

	Imports per Head of Population.		Exports per Head of Population.		Entries and Clearances of Shipping.	
	Amount.	Increase or Decrease on previous Period.	Amount.	Increase or Decrease on previous Period.	Tons per Head.	Increase or Decrease on previous Period.
	£ s. d.	Per Cent.	£ s. d.	Per Cent.	Tons.	Per Cent.
1872-74 - - (8 years only.)	4 6 3	—	2 16 7	—	*0·26	—
1875-79 - -	4 6 1	+ 0·19	3 3 0	+ 11·84	0·27	+ 8·85
1880-84 - -	3 8 3	— 20·72	3 8 8	+ 8·99	0·32	+ 18·52
1885-87 - - (3 years only.)	3 8 9	— 6·59	3 3 10	— 7·04	†0·35	+ 9·37

\* Average for years 1873 and 1874.

† Average for two years 1885 and 1886.

## ITALY.

SUMMARY TABLE comparing the progress of IMPORTS and EXPORTS as stated in MONEY in ITALY with the progress of ENTRIES and CLEARANCES of SHIPPING.

(Compiled from Tables, p. 177 *et seq.* of Appendix to First Report of Royal Commission on Trade Depression, continued to date.)

	Imports per Head of Population.		Exports per Head of Population.		Entries and Clearances of Shipping.	
	Amount.	Increase or Decrease on previous Period.	Amount.	Increase or Decrease on previous Period.	Tons per Head.	Increase or Decrease on previous Period.
1861-62 (2 years only.)	£ s. d. 1 10 4	Per Cent. —	£ s. d. 0 19 5	Per Cent. —	Tons. 0·25	Per Cent. —
1863-67	1 13 10	+ 11·54	1 2 10	+ 17·60	0·31	+ 24·00
1868-72	1 9 1	+ 14·04	1 7 3	+ 19·34	0·30	— 3·23
1873-77	1 17 1	+ 27·51	1 11 6	+ 15·60	0·30	—
1878-82	1 13 6	— 9·66	1 10 10	— 2·12	0·33	+ 10·30
1883-87	2 0 0	+ 19·40	1 9 4	— 4·86	0·42	+ 27·27

The following figures from Mr. Giffen's reports to the Board of Trade show that the declared value of our foreign trade in the under-mentioned years was as follows:—  
The progress of the trade to 1873 having been for many years almost unbroken.

	£
1873	- 626,000,000
1879	- 554,500,000
1883	- 667,000,000
1884	- 623,000,000
1885	- 584,000,000
1886	- 562,500,000
1887	- 583,500,000

If, however, the trade of the three latter years be valued at the prices of 1873, it would be represented by the following figures:—

	£
1879	- 711,000,000
1883	- 861,000,000
1884	- 844,000,000
1885	- 835,000,000
1886	- 858,000,000

The average for the last four years is—

	Declared Value.	Value at Prices of 1873.
	£	£
	609,100,000	849,500,000

showing an average falling off of 240,400,000*l.*, or about 29 per cent.

Even a more striking proof of the decline in value of British trade, as compared with volume, is afforded by the fact, that while we have seen the total value of that trade declined from 626,000,000*l.* in 1873, to 583,641,000*l.* in 1887, the total tonnage employed in carrying it advanced from 37,934,422 in 1873, to 56,170,447 in 1887.

*Wages.*

I think that further evidence might have been taken with advantage as to the course of wages in this and other countries with a gold standard, but although there has been no general fall in wages corresponding with the fall in prices, the information collected by the Royal Commission on Trade Depression, as well as by the present Commission, appears to indicate a reduction in the wages of agricultural labour in many districts, and, although latterly there are indications of improvement due to greater commercial activity, a manifest tendency in recent years towards a decline in other important industries.

It is necessary to remark, in reference to this question, that the mere absence of a fall in wages is not of itself sufficient to prove that there has been no appreciation of the standard, as this process may, in certain circumstances, have manifested itself in preventing a rise. In the present case there is no doubt that the course of wages for a considerable period prior to 1873 was in an ascending scale, and that it has suddenly been arrested, if not to any great extent reversed.

In an important paper by Mr. Giffen, read before the Statistical Society in 1886, it is shown by ample statistics that the rise in money wages of the working classes in the United Kingdom during the last 50 years had been between 50 and 100 per cent., and that this progressive improvement appeared to culminate about 1873, since which time there has been little increase, and in some cases a decrease, indicating the presence of some cause of a general kind which had counteracted an economic movement due to other causes which were still in full or increased operation.

*Silver Prices.*

17. The evidence as to prices measured in silver is much less complete, owing to the absence of authentic statistics or estimates by competent authorities, but it is nevertheless in our opinion sufficient to justify a general conclusion.

We have not been able to obtain any evidence pointing to a rise of prices in silver-using countries, and the Commission has been compelled to rely on general statements in the absence of well authenticated and adequate statistics. In most of these the condition of the currency renders the compilation of such statements difficult and of doubtful value; but I think that the magnitude and importance of British India, combined with the fact of its possessing a sound system of currency based on a metallic standard, may be considered to give it a representative character, and to render it a field of useful, if not of decisive inquiry.

I have, therefore, sought in the movements of prices and of the precious metals in that Empire for the means of comparison with the gold prices of the western countries.

For this purpose the Commission obtained, both from the India Office and from the Government of India, all the available materials for forming an opinion on this subject of Indian prices, and append various tables.

The imperfection of these materials is apparent on the surface, from causes which are familiar to all those who are acquainted with the conditions of India, that it is unnecessary to do more than to refer to the explanations given on this head, both in the written and oral evidence.

But there can be little doubt that during the years succeeding 1873, there is no evidence of a rise in the general level of prices in India, and that, although there has been in some provinces and districts a rise in the wages of skilled labour, the general wage level, as indicated by the wages of unskilled labour, has not as yet risen.

Mr. O'Connor, the Assistant Secretary to the Government of India in the Department of Finance and Commerce, has prepared at our request a statement of Indian price and wage levels from 1861 to 1873, and from 1874 to 1887, from which we gather the following results:—

1. That, on the whole, the food grains of India have for the last seven years been cheaper than in the 14 years immediately preceding them.
2. That the general level (average) of prices for the 14 years from 1874 to 1887, is lower, except for wheat and rice, than in the 13 years from 1861 to 1873.
3. That, in the case of the principal exports, wheat, rice, cotton, linseed, the production of which covers vast areas of land, there has been an increase only in rice. Wheat and cotton have fallen, and linseed is nearly stationary.
4. That, of other exports, jute and shellac alone show any marked increase, while saltpetre, silk, and sugar have fallen.

These general results correspond in the main with the conclusions to be drawn from the returns furnished by the India Office, as well as with the statements of other witnesses; nor is there any evidence afforded by the returns of silver coined in India during the years under review which would tend to show that the currency has undergone any abnormal expansion.

On the whole, we have been unable to obtain evidence that there has been a rise in the general level of silver prices in India or in other silver-using countries; on the contrary, it appears to be established that in several important staples of international trade there has been a decline in silver prices.

In gold-using countries, where price lists and market quotations are not available with a view of ascertaining silver prices, it is necessary to convert the index numbers of the several tables of gold prices into figures which represent silver prices according to the gold prices of silver on the dates to which those numbers refer.

The result of this comparison shows that since 1873 (the date of the abandonment of the fixed ratio by the Latin Union) silver prices have declined as well as gold prices although more slowly, and to a considerably less extent.

18. I thus arrive at the conclusion that there is evidence of a very marked fall in gold prices in so many commodities as to give it a general character, and that in silver prices whatever change has taken place has rather been in the same direction, although to a far less extent. But it is essential to observe that in the foregoing remarks I have confined myself strictly to a statement of the facts, so far as I have been able to ascertain them, and carefully avoided all reference to the causes of the recent course of prices.

I agree, therefore, with those who think that the evidence justifies the conclusion that the period under revision has been one of falling prices, and that there is nothing in the facts which is inconsistent with the opinion that to whatever extent these causes may have contributed to the result, there has been no fall in gold prices attributable to the appreciation of the gold standard, nor does the recent partial recovery in the prices of certain commodities and in freights referred to in § 24 of Part II. of the Report at all invalidate this opinion.

19. We are now in a position to form an opinion as to which of the two sets of causes specified in para. 15 have operated in the present case in creating the divergence between gold and silver prices.

If this divergence had been due to the first set of causes solely, viz., to some change in the relative value of the two metals, that change must have taken one of the three following forms:—

1. An appreciation of gold.
2. A depreciation of silver.
3. A combination of both.

But in either of the two latter cases, the third factor in price, commodities, having been "ex-hypothesi" constant, silver prices must have risen to the whole extent of the divergence in the first case, and to a part of it in the second of which, as we have seen, there appears to be no evidence.

These two explanations are therefore inadmissible, and if the divergence is due to causes affecting the metals alone, it must be due to appreciation of gold.

But if it be due to the second set of causes, viz., a combination of changes in one or both of the metals and in commodities, the cause must be either—

- (a.) A depreciation both of silver and commodities to the full extent of the divergence; or
- (b.) A depreciation both of silver and commodities to the extent of a part of the divergence, with an appreciation of gold to the extent of the difference.

Either of these hypotheses is consistent with the facts of price given above.

We are then left with three possible explanations. One derived from the first, and the others from the second set of causes:—

1. Appreciation of gold, silver and commodities being constant.
2. Depreciation of silver and commodities in relation to gold, gold remaining constant.
3. Appreciation of gold, and depreciation of silver and commodities in relation to gold.



I do not think that the facts before us bear out either of the two first of these explanations, although more consistent with the first than the second.

I cannot doubt that cheaper production and transport, combined with other causes which have increased the efficiency of labour, have had some share in the fall of prices during the last 15 years; but these it must be observed would have affected equally both gold and silver prices, and cannot therefore explain the divergence between them, except on the assumption that silver also has depreciated to the same extent in relation to gold, a contention which will be examined further on.

The second explanation requires the belief that the reduction in the yearly supply of gold to countries outside the United States of 16,770,000*l.* has had no effect on the value of gold in those countries, while the addition of 4,558,000*l.* to the supply of silver has lowered its value by about 28 per cent.; that gold prices have fallen 28 per cent. from cheapening of production, and that the silver prices of commodities would also have fallen 28 per cent., had it not been for an increased supply and reduced demand for that metal which counteracted this fall; in other words, that silver prices would have fallen from 100 to 72 if it had not been for the increased supply of silver relatively to the demand, and that the increased supply of silver and reduced demand for it, have exercised an influence on silver prices equivalent to what would be required to raise from 72 to 100 or by 39 per cent., while a more than proportionate increase in the demand for gold, and a more than threefold greater reduction in the supply of that metal has had no effect on gold prices.

An elaborate argument will be found in Part II. of the Report, §§ 48-71, in support of this second explanation, in which the divergence between gold and silver is mainly attributed to the depreciation of both silver and commodities.

This contention has been so fully dealt with by Mr. Barbour in his Note, whose views I entirely share, that I have little to add.

It has been contended that a heavy fall in the gold price of silver may have been caused by the effect of the increased supplies of the last few years operating on a stock diminished by the whole quantity of silver which exists in the form of subsidiary coin in the currencies of Europe and the United States, and which is kept at a gold value by legislation estimated by M. Soetbeer at 361,433,333*l.*

But this argument appears to lose sight of the effect on the value of silver of the withdrawal from the markets of the world of this large portion of the stock, which is, at present, locked up in the currencies of gold-using countries, and no longer available for export.

Independently of this consideration, however, it must be observed, that if silver has depreciated because the increased supply has operated on a diminished stock, it would not have depreciated if this cause had been absent and it had operated on the whole stock.

If then, as is assumed, the gold standard has not appreciated since the rupture of the bimetallic par,—and silver would not have depreciated except for that rupture,—the standard of value in the West, which then practically consisted of both metals fused for this purpose into one, would have been unaffected, and the fall of 28 per cent. in the price of commodities from causes directly affecting them as is alleged would have been manifested both in gold and silver prices, *i.e.*, in prices both in East and West.

But it is impossible with the same metallic stock of gold and silver, and the same quantity of commodities in both cases, that there could be a fall of 28 per cent. in the price of the latter, both when measured against both metals in combination, and when measured against gold alone.

Therefore the gold standard must have appreciated in some degree, even according to this theory, from causes directly affecting that standard, *viz.*, the recent changes in monetary legislation.

The question is not whether gold has appreciated from causes directly affecting gold, but whether the standard of value in gold-using countries has appreciated from causes directly affecting the standard. This distinction is important.

I also agree with Mr. Barbour in his observations on § 61 of Part II. of the Report, on the effect of an alleged increase in the indebtedness of India to England on current accounts in checking the export of silver to India.

In addition to the difficulties enumerated by Mr. Barbour, which must attend all attempts to draw up a correct statement of international indebtedness in the case of India, which have hitherto baffled the most experienced accountants, I would observe that we can only hope for an approach to accuracy by extending the account over a very long period of time, so as to include all loans contracted in this country.

Two general principles may, perhaps, be stated :—

1. That the excess value of the net exports of goods over the net import of specie represents the amount of the home charges, including the interest on debt.
2. That the excess of remittances over the surplus or net export of goods represents the annual increase of capital debt.

But if an attempt be made to trace the operation of these principles in any limited period, they will often be found more or less at variance with apparent facts.

The remark in § 68 of Part II., as to the effect of the India Council Bills appears to me, for this reason, to overrate their influence on exchange, which can only be temporary in acting as a substitute for silver, and thus preventing its export to India.

The Council Bills are merely the mode by which the Government of India pays its obligations in England. If there were no more Council Bills, there would be no remittance in their place, for there would be no more obligations to discharge. The export trade of India would be so much less, and there would be no greater demand for silver than at present. It is a confusion between cause and effect.

Another reason for rejecting this explanation is the remarkable coincidence in the fall of the gold prices of silver and of commodities, shown in a separate paper by Mr. Barbour, which is hardly to be reconciled with the belief that it can be due to causes independent of each other, and points rather to a common cause, viz., the appreciation of gold. But unless this explanation be accepted, the argument of §§ 48–71 of Part II. of the Report falls to the ground.

It is therefore to the third of these alternatives that I am rather led to look for an explanation of the phenomena under investigation, viz., the proposition that the fall in gold prices is due partly to appreciation of gold, and partly to depreciation both of silver and commodities relatively to gold.

What proportion of the fall is due to each of these causes I am unable to say, but I strongly incline to the belief that it is due in a far larger measure to the former, than to the latter.

My reason for this belief may be shortly stated.

I have said that I did not attach much importance to the change which has taken place of late years in the relative supply of gold and silver in producing the divergence of value, and that I attributed this rather to a change in the conditions of demand.

From this point of view it seems probable that as the demand for gold for currency practically only arises in countries with a gold standard, while the demand for silver for currency arises both in countries with a gold and in those with a silver standard, the increased demand for gold due to recent monetary legislation would have had a much greater effect on its value than that which any diminished demand for silver, due to those causes, would have had upon the value of the latter metal.

To sum up, therefore, my conclusion upon this branch of our inquiry :

It appears to follow from the foregoing reasoning that, as between gold and silver "inter se," regarded as standards of value, there has been an appreciation of gold and a depreciation of silver in unascertainable proportions.

But that in considering gold and silver in their relation to commodities, gold being a commodity in countries with a silver standard, and silver being a commodity in countries with a gold standard, and thus using the terms "appreciation" and "depreciation" of the precious metals in their popular sense, there has been an appreciation of gold to the whole extent of the divergence from a combination of causes, and not only no depreciation of silver, but probably a certain "appreciation" of this metal also.

The impression left upon my mind by the results of the inquiry is that if the legislative changes made in 1873, and subsequently, had not taken place, there would probably have been some appreciation of the bimetallic standard, i.e., both of gold and of silver, due to causes directly affecting commodities; but that the effect of those changes has been to diminish the relative demand for silver, and to increase the demand for gold, both relatively and positively, thus reducing within comparatively narrow limits the appreciation of silver, while seriously aggravating the appreciation of gold, and leaving the level of silver prices with little alteration, while causing a marked fall in the level of gold prices.

#### *Causes other than Appreciation of Gold.*

20. Having thus arrived at the conclusion that there has been a distinct appreciation of gold, due in a considerable degree to causes primarily affecting that metal, it is not

necessary to discuss at any length the reasons and arguments which have been advanced to prove that there has been none, but so much prominence has been given to these considerations, both by several witnesses, and in the report of our colleagues, that some remarks are required.

This view is sustained by two different lines of reasoning.

The one is directed to show that the fall in gold prices, to whatever extent it is admitted, is to be explained by causes directly connected with commodities.

The second appeals to the effect of the extension of credit, and of banking and other expedients for economising the use of gold, which it is said have operated in neutralising any tendency to its appreciation.

21. Much stress has been laid on the fall of prices due to what is described as an economic revolution, and a new epoch in the conditions of production, transport, and mechanical and other scientific improvements in manufacture and agriculture, upon the untrustworthiness of averages between different commodities differing in relative importance, on the absence of retail and local prices in such averages, and perhaps, above all, in the omission of wages from the comparisons.

In answer to these objections, it is to be said that those undoubted causes of a fall in the prices of many commodities may be at once admitted, without in any way proving that they may not have coincided with and aggravated the effects of an appreciation of gold, and that they are insufficient to account for the fall in the gold price of silver; also that there is no reason to assume that they commenced to operate in 1873; that, in adopting the system of index numbers, its authors were fully alive to its defects, and that, after making every allowance for them, the most careful and thoughtful economists, such as Cairnes and Jevons, both held it to be sufficiently trustworthy to found upon it practical conclusions with every reasonable confidence; that retail prices will not immediately correspond with wholesale, although ultimately adjusted to them; that wages will probably be the last department which will exhibit signs of reduction, and that we have received much evidence that these have way in important branches of industry.

The general argument which is also urged in § 24 of Part II. that there is no evidence of a universal fall, extending to all commodities, all prices, and all wages, and that an appreciation of the standard can only be attested by such a result, scarcely appears to me to call for much remark, as I cannot doubt that the operation of a subtle cause such as this would, from the nature of the case, be gradual, unequal, irregular, often local, and unattended by any uniform and universal manifestations.

22. Under the first head, I also think that it would be difficult to show that the supply of commodities generally has increased, or the cost of production been diminished, during the last 15 years in a greater degree than in various periods of similar length before that date, when no very general or permanent fall of prices resulted. Those who allow that prices have fallen since 1873, and deny this to have been the effect of an appreciation of gold, must point out something else in the progress of industry since that date entirely different from and even contrary to the progress of the preceding period. If it be said that the gold discoveries in 1850 and the succeeding years counteracted the effect on prices which would have been produced by the increased supply of commodities in those years, this only shows how powerful is the influence of the supply of, and demand for, the precious metals, and justifies those who contend that the *extra demands* upon gold, owing to the demonetisation of silver and the rupture of the bimetallic par, have since 1874 intensified the effect of the development of production, and diminution of cost during the latter period.

23. In the next place, I remark that an increase in the supply of commodities involves new demands for the precious metals to be used as currency and reserve, for hoarding, for ornaments, and for use in the arts; so that not merely may the value of commodities fall in relation to gold, owing to increase of supply, but if the commodities of which the supply have been increased be of great importance and the number considerable, the value of gold generally may rise owing to the increased demand for it.

In no other country have the development of natural resources, the increase in production, and the extension of facilities for transport kept pace since 1873 with the United States, and it is in this country that the demand for gold has most rapidly increased.

24. Again, admitting an increase of supply at cheaper cost in certain commodities, and a considerable diminution in the cost of transport since 1874, and as a consequence the fall of the prices of these articles due to these causes, I am of opinion that the ultimate effect should have been to have stimulated the demand for other articles, the price of which would consequently have risen. If so, the fall of prices, which is a marked characteristic of the last 15 years, would not have occurred at any rate to so great an extent.

25. And finally, if gold prices have fallen solely owing to causes connected with commodities, silver prices should also have fallen, unless it can be shown that the fall in silver prices has been counteracted by an increased supply and a diminished demand, which is not, I think, borne out by the facts of the case.

26. With respect to the second line of argument, I must begin by stating that I do not share the views expressed in Part II. of the Report, as to the effect of credit upon prices. The question is one of such complexity, and has hitherto been so imperfectly investigated by economists, that it cannot be adequately discussed in connexion with our present inquiry, but I believe the operation of credit to be rather that of adding incalculably to the number of transactions, as well as to the circulating medium required to effect them, than of diminishing the quantity of metallic money necessary to supply the requisite currency.

As a matter of fact, I doubt whether, on the whole and in the long run, it has been found that the development of credit has diminished the quantity of metallic money required for currency purposes.

I concur in the opinion of Mr. Jevons contained in the following passage:—

“ While the elasticity of credit may certainly give prices a more free flight, the inflation of credit must be checked by the well-defined boundary of available capital which consists, in the last resort, of the reserve of notes, equivalent to gold in the banking department of the Bank of England. Prices may temporarily rise or fall independently of the quantity of gold in the country, ultimately they must be governed by this quantity. Credit gives a certain latitude without rendering prices ultimately independent of gold.”

Investigations in currency and finance, p. 30.

And again, p. 176, “ It is the aggregate of coin and gold in circulation or reserve, in short, the supply of gold as compared with the work it has to do, which determines the range of prices, and which must in the last resort be used to make payments either in an internal or foreign drain.”

But without entering further upon this question, it is enough for our present purpose to observe that any extension of credit instruments in the period under review will undoubtedly have taken place rather in the chief gold-using countries than in those with a silver standard, thus tending to sustain prices in the former rather than in the latter, and that it is precisely in the first that prices have fallen, while in the latter they have been comparatively unchanged.

If, therefore, these agencies are held to affect prices, it is incontestable that the process which any extension of them would have set in motion would have been that of a fall in the value of gold, or at least an arrestation of a rise, and a relative rise in the gold price of silver, which in countries with a gold standard is a simple commodity, instead of which the one fact as to which all are agreed is that the gold price of silver has fallen 28 or 30 per cent.

27. The same remarks are applicable to the effect of any economies of gold by banking and other expedients, such as postal orders, the telegraph, and more rapid means of transport, the use of securities, &c., referred to in § 33 of Part II. of the Report, and I must add my opinion that there seems no sufficient reason for supposing that there has been any such marked progress in these economies since 1873, as compared with preceding periods, as to have produced the consequences ascribed to them.

28. I do not think that the influence of credit or of economies in the use of gold since 1873 has any material bearing on the question before us; and I cannot therefore admit the force of the argument in § 53 of Part II.

29. In § 36 of that Report a reference is made to what is called the “ nexus ” between prices and the metal which forms the standard of value. In the remarks which follow, the difficulty of the question appears to me to be complicated by considerations which do not really affect the main issue.

According to Mr. Mill the price of a thing is its value in money. The "nexus" therefore between money and anything else for which it is exchanged is the same as that between any other two commodities.

If the quantity of gold or of iron increases relatively to the quantity of anything else for which it is exchanged, its purchasing power is diminished.

If the quantity of gold or of iron decreases relatively to the quantity of anything else with which it is exchanged, its purchasing power is increased.

Whatever may be the effect of what are called "substitutes for gold" as money, the fact remains that an ounce of gold will at one time exchange for more wheat or iron than at another time, and the question which, as I understand it, has been referred for inquiry is whether at the present time, the purchasing power of gold has increased, and, if so, to what causes such increase is due.

30. Another argument to which much prominence has been given in our inquiry is that if there had been any real appreciation of gold due to scarcity it would be visible in a diminution of the Bank reserves and in a high rate of discount.

I do not believe, and in this view I believe that I am in accordance with most economical authorities, that there is any necessary connexion between the abundance or scarcity of the standard metal and the rate of interest or discount on money. The value of money in the money market and in the produce market are two totally different things. The one is the term used for the use of capital, not of gold, except so far as it is capital, and the demand for capital on loan has no necessary relation to the demand for gold in exchange for commodities.

The rate of discount depends on the activity or depression of trade, and as a matter of fact, it will, I believe, be found that when gold has been most abundant, as at the time of the gold discoveries in Australia, the rate of discount was unusually high. During 1854-57 the rate was only for a few months below 5 per cent.; for more than half a year it stood at 6 and 7 per cent., and at the end of 1857 it remained for nearly two months at 10 per cent.; again in 1861 it rose to 6 and 8 per cent.

On the other hand, in periods of depression, the rate of discount and interest is low, because there is a diminished demand for money on loan, business being restricted and enterprise checked when prices are falling.

TABLE of the RATES of DISCOUNT and GOLD PRODUCTION, showing that although the production was very much smaller between the Years 1844-1852 than between 1853-1863 the average rate of discount was lower.

	Year.	Average Rate of Discount.	Production.	
		£ s. d.	£	
	1844	2 10 0	7,639,000	
	1845	2 13 8	7,639,000	
	1846	3 6 6	7,639,000	
	1847	5 3 6	7,639,000	
	1848	3 14 5	7,639,000	
	1849	2 18 7	12,700,000	
	1850	2 10 1	14,200,000	
	1851	3 0 0	16,600,000	
Average		3 12 3	10,211,000	Average of 8 years.
	1852	2 3 0	36,550,000	
	1853	3 13 10	31,090,000	
	1854	5 2 3	25,490,000	
	1855	4 17 10	27,015,000	
	1856	6 1 2	29,520,000	
	1857	6 13 3	26,655,000	
£ s. d.	1858	3 4 7	24,930,000	8 years' average
4 6 4	1859	2 14 7	24,970,000	28,275,000.
	1860	4 3 7	23,850,000	
	1861	5 5 4	22,760,000	
	1862	2 10 7	21,550,000	
	1863	4 8 2	21,390,000	
Average		4 4 10	26,314,000	12 years' average.

Thus the first eight years show a total production 81,686,000*l.*, average discount 3·6125.

The second eight years show a total production 226,220,000*l.*, average discount 4·3841.

Twelve years show a total production 315,770,000*l.*, average discount 4·3437.

The term scarcity of gold is a misleading expression. It is not scarcity in the sense of scarcity of bread or meat. It seems to me that if there is less gold, less is wanted for currency, except to sustain prices. This, therefore, does not cause a greater demand for gold which is intended for new production, and not for circulation. On the contrary, when prices fall business contracts, and production is checked—capital in the form of gold accumulates in the banks, and the rate of interest and discount falls.

31. Another theory which has received support from several quarters and which attributes the fall in gold prices to other causes than the appreciation of gold, is that it has been brought about by a fall in the gold price of silver, acting in the first instance upon the prices of commodities exchanged in the trade between gold and silver using countries, and ultimately upon the general level of all prices.

This view has been set out at length in §§ 81 and 82 of Part I. of the Report, and in § 9 of Part III. There is no doubt that some colour is given to this theory by the remarkable coincidence between the course of the index numbers of the prices of commodities generally, and the course of the price of silver, but in considering the question it is necessary to distinguish between cause and effect.

If the fall in the gold price of silver was due to the depreciation of silver alone, silver prices would have risen, while gold prices would have at first remained the same.

In this case the producer in silver-using countries could not afford to take a lower gold price, and his competition would not, therefore, have caused a depression in gold prices.

It is because, as I think, this fall in gold prices is largely, if not mainly, due to the appreciation of gold, and because silver is not depreciated in relation to commodities, that the producer in silver-using countries has been enabled to sell his produce at a lower gold price.

I, however, think that even upon this assumption it is probable for the reasons given in § 81 of Part I., that the advantages temporarily given to the producer in silver countries have stimulated the exports of certain articles, as for instance, of Indian wheat, and thus tended to increase the supply in gold-using countries, and beat down their price, and that this process may have had an appreciable, although a limited, effect in aggravating the fall of gold prices. This cause, however, to whatever extent it has operated, I regard rather as collateral and contributory than as primary in its effect on gold prices.

32. Having thus examined the different causes of the divergence in value between gold and silver, and their respective effects upon gold and silver prices, I add some remarks as to their bearing upon the matters of practical business to which attention is directed.

India:

(a.) Remittances of Government.

1. For old and fixed contracts.
2. For new and current contracts.

The very serious nature and extent of the effects of the divergence upon these remittances are shown at some length in §§ 94 to 100 of Part I., and I need not therefore repeat them.

33. But I cannot express too strongly my sense of the injurious, not to say disastrous, effect of the absence of a common standard between this country and its greatest dependency.

It is not too much to say that it renders all continuity of financial policy impossible in a country in which successful government especially depends upon finance, and in which the financial difficulties of the future are grave enough, without this additional source of unnecessary and lamentable weakness.



*Private Remittances.*

34. Persons in India who have to make remittances home in gold have suffered in the same manner and to the same extent as the Government. Their remittances, when converted into gold, undergo at the present time an apparent loss of about 33 per cent., except when this is alleviated by a fall in the gold prices of the articles or services in payment of which the remittance is made.

The private remittances, as a whole, comprise not only the savings of Europeans resident in India, both in the service of Government and in other capacities, but the dividends upon Indian investments due to residents in England, and remittances by banks and merchants in the course of commercial transactions.

It is not possible to ascertain their total amount, but when it is considered that most of the joint stock enterprises, such as railways and many agricultural and manufacturing undertakings, have been created by British capital, it is evident that a large part of their profits must be remitted to England, and that these must suffer heavily by the fall in the exchange.

There is, however, this distinction to be noted between the remittances of Government to defray fixed charges, and those of private persons who remit their savings or profits. In the case of the first, an additional number of rupees is required to discharge a fixed sterling obligation. In the second case the same number of rupees is remitted, with a smaller outturn in sterling. The effect, therefore, of the first is to increase the exports from India, while no such consequence attends the second.

*On Producers, Merchants, and Taxpayers of India.*

35. Before I proceed to deal with the respective interests of these several classes, it may be convenient to state my views with regard to the general effect produced upon the international trade between a gold and a silver using country by changes in the relative value of the two metals. Such changes, as I have already pointed out, must be attended or followed by proportionate changes in the levels of gold and silver prices. But while any change in the relative value of the two metals will take effect simultaneously in both countries, the adjustment of all prices, including the wages of labour, to the altered relation is necessarily not only gradual and unequal, but in regard to existing contracts, the wages of labour, and all payments regulated by custom, often so slow and doubtful in its operation as greatly to affect the relative conditions of production in the two countries. While the adjustment is proceeding, the producers in one country may possess a distinct advantage over those in the other, from the fact that prices may have fallen in the first and not in the second, while fixed charges such as rent, interest on loans, and wages remain for a considerable time unaltered.

When the process of adjustment has been completed, and all prices, including wages and fixed charges, have accommodated themselves to the altered relation of the standards, the conditions of exchange between the two countries will, so far as this cause alone is concerned, be the same as before.

I cannot help thinking that the widely prevalent opinion that the divergence in value between gold and silver has operated as a stimulus to exports from India and other silver-using countries, is largely due to the impression which existed in the earlier period of that divergence, and which was strengthened by the Report of the Silver Committee of 1876, that it had been caused by a depreciation of silver as a standard of value against commodities. If this had been the case, we should have expected a marked flow of silver to India in preference to other commodities, and a temporary increase of exports from India, thus causing a stimulus to Indian exports, and a check to the import trade in goods until an equilibrium had been reached. But no such effects need be produced by a divergence due to the appreciation of gold, which, as will have been seen by my previous remarks, has been, as I think, the principal cause of the recent disturbance.

From this latter point of view, the process which has been in operation would appear to have been of the following nature, confining our attention, by way of illustration, to the trade between India and the United Kingdom for the sake of greater clearness.

The appreciation of gold has caused a fall in the price of commodities in general, including silver, in the United Kingdom as a gold-using country.

The absence of depreciation of silver in India has left prices in that country generally stationary.

The English producer being unable at once to adjust his fixed charges and wages to the fall in the price of his product, has been compelled to forego a part of his profit. The Indian producer having escaped a fall in the price of his product, has remained unaffected by the monetary disturbance, and has thus and to this extent been placed at an advantage as compared with the English producer.

Both English and Indian producers have had to submit to a lower gold price in the English market, but as this lower gold price produces the same number of rupees as the higher gold price did before, the Indian producer has not suffered, while the English producer from the cause mentioned above has undergone a loss of profit.

If this loss were caused by any special disadvantage of the Indian trade it would, no doubt, have led to a contraction of the exports to that country, but as it is equally incurred in other branches of trade, the effect has probably been to stimulate them with a view of counteracting the loss by larger sales.

The general principles which in the long run control and determine the course of trade on the occurrence of a divergence in the value of the two metals between countries with a gold and with a silver standard appear to be these, and to be in accordance with what would seem to have been the facts in the present case.

The divergence in value of gold and silver must be attended or followed by a proportionate divergence in gold and silver prices. When this process, which must be gradual and unequal in its operation, has been completed, and all prices, including wages and fixed charges, have adjusted themselves to the altered level, the conditions of exchange between gold and silver using countries will, so far as this cause alone is concerned, be the same as they were before.

But during the process of adjustment, which may extend over many years, and cause infinite evil, a considerable disturbance in those conditions will probably take place, from the very nature of the process. In what does this process consist? It must consist in a rise of prices in one country and a fall of prices in the other, or a rise or fall in different degrees in both, but in all cases the relative effects will greatly depend upon the extent of the divergence. It seems, however, probable that those effects will be more marked in a case characterised by appreciation of the standard in one country and by depreciation of the other than where the movement of prices in both countries is in the same direction although in different degrees.

In the former case, it appears to me that the real exchange between two countries trading with each other must be affected by whatever affects their relative conditions of production, and it must be admitted, I think, that whatever may be held to be the effect on a country as a whole of an appreciating or a depreciating standard, as regards the producing classes at all events, a country in which prices are rising or are stationary is at an advantage in its relation to a country in which they are falling, owing to the fact already stated that a considerable time must necessarily elapse before the fixed charges and the wages of labour can adjust themselves to the lower scale. This process of adjustment, when it takes place on a descending scale, is one of infinite loss and difficulty to all those who are affected by it, and we attribute much of the depression of trade and diminished employment of labour and profits on capital to the operation of this cause.

36. Applying these general principles to the case of India, it seems probable that if the fall in the exchange had stimulated the export trade and thus benefited the Indian producer, the same cause would have checked the import trade; but the trade accounts for the period under review show that, while there has been a great growth in the foreign trade of India, as a whole, the progress of the import trade has kept pace with that of the export trade.

This remark applies both to the total foreign trade of India, and to that part of it between India and this country.

The statistics of the trade are given in the Appendix to our first report, Tables B. and C., p. 338.

These facts are scarcely consistent with the opinion that the Indian producer has greatly benefited by the fall in the exchange, but a still stronger reason for the conclusion that no marked effect upon the Indian producer has been felt is afforded by the fact, which appears to be unquestionably established by the tenor of the evidence, that there has been no such general rise in the prices of the staple products of India as to afford ground for thinking that there has been any special cause at work tending to an abnormal increase of production.

I am not, therefore, disposed to think that the divergence in value of the precious metals has, down to the present time, affected in any marked degree the general

condition of the Indian producers as a class, although there is much evidence to show, what probably has been the case, that, at particular moments, a fall in the exchange has led to an increased demand for special products such as wheat, and temporarily acted as a bounty upon its export, until the fall in the gold prices of such wheat in Europe has restored the trade to its former level. This effect, therefore, is rather due to the progressive nature of the divergence, than to the fact of such divergence once for all.

36. I am, however, far from thinking that the absence of a common standard of value between the United Kingdom and India, and the frequent fluctuations which are inseparable from the present absence of fixity in the ratio between the metals of which they consist, are unattended by evil effects in the long run even to the producers and merchants of India. However, it may be true that, in the long run, any change in the relative value of gold and silver may be followed by corresponding changes in the prices of commodities and the wages of labour, it is notorious that the two things are not identical in point of time, and that, with respect to contracts and obligations which are either permanent or which extend over many years, the adjustment is either impossible or slow and gradual in its operation, so as greatly to affect the relative conditions of production between the two countries. In the present case we have received evidence that, although it may be true that the fall of gold prices has been followed and neutralised by a corresponding fall in the prices of Indian products in Europe, still that, owing to the fact that the Indian producer has not been affected by any change in the standard of value, while the producer in Europe has been obliged in many cases to accept lower prices, with no corresponding fall as yet in the fixed charges to which he may be liable, the former has been placed in a relatively better position, and been able to compete under more favourable conditions than before. To this extent I am therefore disposed to think that the Indian producer may have benefited by the fall in exchange, and that in this sense he may be said to have received a bonus or bounty on the exportation of his products; but I am unable to accept the view which has been pressed upon us by many witnesses that the fall in exchange can operate permanently as a bounty on Indian exports, holding as I do the opinion that this fall is mainly due to an appreciation of gold which must in course of time equally affect the gold prices of the main articles of Indian export and import.

Nor can I doubt that the Indian producer is distinctly injured by the unstable nature of the exchange between gold and silver using countries, which cannot fail to render the conditions of production, so far as regards the staple exports, more or less uncertain and insecure, as well as by the unquestionable check which is thus caused to the investment of British capital in industrial undertakings.

I believe that the present high rate of interest on money in India in first-class securities, such as mortgages on solid and improving property, is largely due to this unstable condition of the exchange, which necessarily deters Western capitalists from such investments, and that India is thus deprived of one of the great advantages of British rule in providing her with cheaper capital and improved credit.

37. On the other hand, the apparent stimulus which has been given to the trade of India in some branches (especially to the cotton trade) with silver-using countries appears to afford a useful illustration of the disturbance which may be caused by the unsettled exchange, as it seems to show that a stable exchange may account for the partial transfer of a trade from a country where this condition is absent, to one in which it exists.

38. If this be the case, it appears probable that the continuance of an unstable exchange will tend to operate very unfavourably on the progress of British trade with the East and with silver-using countries generally, and it must be borne in mind that nearly two thirds of the British export trade in cotton manufactures, both yarn and piece-goods, is carried on with these countries, on which, owing to the protective tariffs of most of the gold-using countries, the British manufacturer has been compelled more and more to rely. We cannot, therefore, but regard this aspect of the question under consideration as of great prospective interest.

39. I have nothing to add to the remarks in Part III., § 16, on the position of the Indian taxpayer, except to observe that in considering the future I cannot but regard as a matter of serious moment the possibility of a still further relative depreciation

of silver or appreciation of gold. This possibility is indeed so present to the minds of many of those whose opinion is entitled to much consideration, that it has been urged as one of the principal objections to the adoption of rated bimetallism, from the fear that the excessive production of silver would drive all the gold out of the currencies of the countries which adopted it. It seems, therefore, necessary to take it into account in considering the practical policy to be pursued.

*Effects on United Kingdom.*

40. But it is upon the general trade of the United Kingdom, and the industrial condition of this country generally, that I think the injurious effects of the recent currency changes have been chiefly felt.

41. I observe the following paragraph in the Final Report of the Royal Commission on the Depression of Trade and Industry.

“ We expressed in our third report the opinion that this fall in prices, so far as it had been caused by an appreciation of the standard of value, was a matter deserving of the most serious independent inquiry; and we do not, therefore, think it necessary to investigate at length the causes which have brought it about. But we desire to give it a leading place in the enumeration of the influences which have tended to produce the present depression.”

42. The result of this inquiry has been to produce upon my mind a similar impression, and if the conclusion at which I have arrived, as to the nature of the divergence in the relative value of the two metals be correct, the effect upon the trade and industry of the United Kingdom must have been that of an appreciating standard of value. I hold, for reasons which are given at greater length in § 85 of Part I., that this is a distinct and serious evil, especially to the industrial and working classes. Absolute stability in the standard of value being unattainable, it is, in my opinion, better in the interests of those classes, and probably in the general interests of society, that the tendency should be rather towards depreciation than appreciation. Whatever the drawbacks and inconveniences of this former process, and they are far from inconsiderable, it at least tends to benefit the commercial and industrial classes and the general taxpayer, rather than the unproductive classes, and to improve the condition of the great body of the people.

The contrary effect is produced by appreciation; in this case, those who are enjoying acquired wealth benefit at the expense of those who are in process of acquiring it, and the active and enterprising members of society suffer.

If the relation of debtor and creditor must be disturbed, it is in the interest of trade and industry that the change should be favourable to the debtor rather than to the creditor.

43. The appreciation of the standard of value, so far as it is due to causes affecting the metal or metals of which it is composed, has been, in my opinion, primarily caused by the rupture of the bimetallic par. If this had been maintained there might still have been, if my view is correct, a fall in prices due to causes affecting commodities, but the effects of such a disturbance would have been very different; they would have affected debtors relatively rather than positively, while they would have left the taxpayer in no worse a position than before, although benefiting the annuitant.

44. In the foregoing remarks I have dwelt more especially upon the evil effects which have been caused by the particular and accidental form which the divergence between gold and silver prices during recent years has assumed, viz., that of an appreciation of the gold standard, and a corresponding fall of gold prices; but in placing on record my view as to the general and permanent evils arising from the absence of a fixed legal ratio between the two metals, I desire to express very distinctly the opinion that I attach far more importance to the injurious effects of constant fluctuations in their relative value, in imparting a character of uncertainty and insecurity to the international exchanges between gold and silver using countries, than to a mere alteration in their relation to each other, in one form or other, whether by a rise or fall of either metal. It is necessary to give prominence to this view, because it is sometimes said that a bimetallic standard is advocated mainly for the purpose of raising prices and benefiting debtors. It is entirely forgotten by

those who entertain this idea, that if the divergence in the relative value of the two metals had taken the form of a depreciation of silver, the adoption of rated bimetallism would have the effect of lowering prices and benefiting creditors in countries with a gold standard.

It is moreover essential to remember that this aspect of the question is not affected by the difference of opinion in the Commission, as to the secondary causes of this present divergence.

45. I therefore find that the effects of the divergence have been distinctly injurious, and that the original cause has been the change in monetary legislation in the years immediately preceding and following 1873. The present divorce of gold and silver is nothing more nor less than a great and novel experiment. To speak of a return to a system which practically prevailed for nearly two hundred years as a "tremendous change" and a "leap in the dark," as it is described in §120 of Part II., appears to me to be a great exaggeration.

Unless we go back to a period which affords no ground for useful comparison, we have nothing but the experience of the last 15 years to guide us in forming an opinion as to what the consequences may be, of substituting what has been called "unrated" for "rated" bimetallism in "the world's" currency. So far, that experience is far from encouraging. Serious inconveniences in international trade have manifested themselves, prices have been greatly disturbed, and no present prospect appears of an abatement of these evils.

46. But it is chiefly to the future that those who view with anxiety the present monetary disorder look with apprehension.

For the future there is, and can be, no security whatever. Any large addition to the stock of either metal, or any large deficiency in its supply, any change of policy in any important country, dictated by real or supposed national interest, such as the adoption of a gold standard by India, a further divergence in the ratio, rendering illicit coinage of silver in countries where it is kept at an artificial value profitable, might produce serious embarrassment, and in India a political and financial crisis.

It may be safely affirmed that no country in the world can be secure or satisfied with the present state of things. It is neither monometallic nor bimetallic in the popular sense of the term, and can only be properly described by the French term, as the system of the *étalon boiteux*.

I concur in the opinion expressed at the Monetary Conference in Paris, in 1878, by the British delegates, that a further demonetization of silver, which may be the result of inaction, might bring about a commercial and financial catastrophe.

If then there can ever be a case which calls for international concert, this certainly appears to be one.

#### *Future Supplies.*

47. Some reference is necessary to the question of the prospect of the future supplies of gold and silver. I should have been glad if it had been found possible to receive more evidence on this head, but I doubt whether any very useful purpose would have been served by it. As regards the conditions of future production (and on this point there seems to be a very general concurrence of opinion) it seems probable that while there will be a continuous supply of both metals in fluctuating quantity, there is little prospect of any such vast and rapid increase in the supply of either of them as has taken place on former occasions, and especially at the period of the Californian and Australian gold discoveries, but it appears to me that any opinion on this subject must be so speculative in its character, that it would be unsafe to give an important place to this element in the problem, in deciding on the practical measures which it is advisable to adopt.

#### *Proposed Remedies.*

48. With regard to the possible remedies for the serious evils which, in my opinion, have been caused, and will continue to be caused, by recent changes in the relative values of the precious metals, I have little to add to the recommendations of the joint report.

49. Convinced as I am that the primary cause of those changes has been the final rupture of the bimetallic par maintained by the Latin Union until 1873, I cannot

doubt that a remedy should be sought in a return to the system of a fixed ratio between gold and silver, if it be possible to establish it over a sufficiently wide area to ensure permanent stability.

50. What the extent of the area sufficient for such a purpose would be is a question on which very different opinions prevail, but I should hesitate to recommend any course which would conduct Her Majesty's Government to the adoption of a bimetallic standard in the United Kingdom which did not include the principal commercial countries and groups of countries of the world, such as the United States of America, the Latin Union, the German Empire, the United Kingdom, and British India.

51. I believe, however, that if an agreement could be arrived at between these Powers by which their mints were respectively open at all times to the free coinage of both metals into legal tender money at a common fixed ratio, such coins being available for the payment of all debts at the option of the debtor, all future fluctuations in their relative value would be confined within very narrow limits, and that a common international standard would be secured, possessed of the greatest attainable degree of stability.

52. This is, however, a remedy the application of which is only possible by international concert, and I have no means of knowing what prospect there may be at the present time of the co-operation of the Powers concerned for such a purpose.

53. I can only observe that on the occasion of the Monetary Conference of 1881 at Paris, it appeared probable that if the assent of Her Majesty's Government could have been obtained, such an arrangement as I have suggested would have been acceptable to the other Powers. I therefore think, that if any future occasion should present itself which appears favourable to renewed negotiations with a view to another conference with a similar object, it is one which Her Majesty's Government should do all in their power to promote.

It would be useless to enter upon a consideration of the details of any such arrangement, in anticipation of discussions which can only possess practical value in connexion with an international conference. The questions involved are of a kind which affect so many interests in other countries as well as in the British Empire, that the materials are not available for definite and final conclusions as to the precise nature of any arrangement, except as regards the essential principles to which I have already adverted.

54. But on one point it is necessary, in anticipation of any international negotiations, to state the views which I have been led to entertain, viz., the permanent relation which it is desirable to create between the two metals, in the event of the adoption of a fixed ratio under international sanction.

55. I so far differ from the opinion of some of my colleagues, as to think that the expediency of establishing such a ratio should not be held to depend upon the possibility of its being fixed at the average market ratio of the last two or three years. I think that any ratio, within the extreme limits of that which prevailed prior to 1873 and that of the present time, would be preferable to none.

56. And while I am far from underrating the objections to an arbitrary interference with prices and existing contracts by the creation of a ratio widely differing from the market ratio, I doubt whether the consequences would affect existing interests so seriously as is sometimes thought, if the change of standard were gradual and prospective, and not immediate, in its operation.

57. I also think that in considering the objections to the action of Government in disturbing the standard of value, there is something to be said against the adoption of a ratio which might prevent any natural recovery from the present depression of gold prices, and render permanent in the case of India, the present heavy loss on the Government remittances which has been caused by the recent divergence.

58. Whether on the balance the general interests of India would be better served by a return to the former ratio, or by the adoption of one approximating to the market ratio, is a question on which different opinions are held by those entitled to



speaking with authority, and which involves so many considerations, both political and economical, that I think it should be left in a great degree to the decision of the Government of India.

59. I would, however, observe that while, on the one hand, it is possible that a return to the former ratio might, by causing an increased demand for silver in Europe, check its flow to India, and thereby tend to lower prices in that Empire, it is difficult to believe that the opening of the Indian mints to gold would not have an effect in attracting into the currency a portion of the gold which exists in such large quantities in India in hoards, the accumulation of which has probably increased under recent conditions, and which a fall in the value of gold would probably have a tendency to diminish.

60. But I think that this is a question which can only be determined by a conference, at which the interests of other countries, as well as those of the British Empire, can be fully represented and considered, and, therefore, that, if such a conference were at any time to be held, Her Majesty's Government should enter it, unfettered by any previous expression of opinion on this important point.

#### *Objections.*

61. In addition to the objections to this policy which have been enumerated in our joint report I would add the following:—

(a.) That a bimetallic ratio would probably give a worse rather than a better standard of value, because the momentary standard is always the over-estimated metal, which would give a constant advantage to the debtor, and that silver has during the last thousand years fallen more than gold, and that while both have depreciated in comparison with corn and the chief raw materials, it is probable that silver is more subject to depreciation than gold. The ratio would, therefore, tend to discourage the production of the dearer metal, which it is desirable to encourage.

With respect to this objection I would observe that it in no way follows from the fact that the momentary standard is the over-estimated metal under a bimetallic system, that a worse rather than a better standard of value would be secured. This will entirely depend on the cause of the divergence between the two rated metals. If that cause be the depreciation of one of them in comparison with things in general, the effect will be as is supposed, but if the cause be the appreciation of one of them as against things in general, the over-estimated metal will be the better standard of the two.

Nothing is more impossible than to predict with confidence what the future relations of the two metals if they remain unrated may be, but at the present time, if the conclusions at which we have arrived in this Report are sound, it is evident that silver has varied considerably less than gold in its relation to commodities.

Although it may be true that during the last thousand years both metals have fallen in value in comparison with corn and raw materials, this has not been the case as regards gold since the early part of the present century, a period which serves far better for practical purposes of speculation.

It appears to me, in view of the enormous expansion of trade and commercial transactions in modern times, and the increased efficiency given to human labour by improved methods of production and transport, that it is only by the full and free utilisation of both metals as standards of value that a progressive tendency to appreciation, and therefore to instability, can be averted.

(b.) The objection, that in the event of a great war in which any one of the contracting powers were engaged, it might probably be necessary for it to resort to a forced paper currency.

In such a case I see no reason to suppose that one metal more than the other would be thrown on the markets of the world, thus disturbing the ratio, or that any other effect would be produced, which would not equally follow a similar policy, if there were no convention, viz., a temporary addition to the currency of the world, attended by an inflation of prices, which, when specie payments were resumed, would be followed by a collapse. This is no doubt an evil, but it appears to me to be one, the effects of which, would be more serious if one metal alone was the general standard of value. It must also be remembered that the present unsettled relations between gold and silver constitute one of the main difficulties in the resumption of specie

payments, and the adoption of a metallic currency by countries, such as Russia, Austria, and several South American States, in which the system of a forced paper currency still prevails, and that its continuance may compel them at some future time to resume on gold.

(c.) The answer to the objection derived from an alleged breach of faith with creditors, must mainly depend upon the view which is taken of the magnitude of the evils which have already arisen, and may reasonably be expected to arise in future from the absence of any legal ratio between the two metals. If these evils are inconsiderable, and can be regarded without serious apprehension for the future, it may well be thought that they do not justify measures which arbitrarily affect the standard of value, and may disturb existing contracts.

But a different set of considerations arise if, as I have stated them in my belief to be, they are of a nature seriously to impair the general interests of the country, to compromise our commercial policy, and to imperil the financial position of our greatest dependency.

From this point of view it will probably be admitted that, as in other cases of national emergency, the interests of a portion of the community, however important, should not be allowed to stand in the way of a reform which is thought to be required in the interests of the Empire as a whole.

62. I fully appreciate the reasons which have weighed with those of my colleagues who are opposed to so great a change as that which has been suggested, on what have appeared to them doubtful and insufficient grounds, and it is with much hesitation that I venture to differ from the opinions of some of them, such as Sir J. Lubbock and Mr. Birch, whose practical experience and authority are much greater than mine, but after giving due consideration to all the objections which have been urged against it, I do not think that they are such as ought to be allowed to stand in the way of the course which has been recommended in §§ 34, 35 of Part III., even on purely national grounds, even if the question were not one of much wider significance.

63. A common standard of value between the principal commercial countries is an object the importance of which can hardly be exaggerated, and it appears to me to be almost an essential condition of the fulfilment of the policy of free trade.

64. If this opinion be accepted, it may be safely affirmed that, in the present state of the world, the object in view can only be attained by the method which has been proposed, and I cannot doubt that if a sufficiently wide area of agreement between the leading commercial countries could be secured, this great international reform might be successfully accomplished.

65. To sum up the preceding remarks :—

(a.) The primary cause of the divergence in the relative value of gold and silver in recent years is to be found in the monetary legislation of the period, by which the regulating effect of law in maintaining practical stability in their relation to each other was removed.

(b.) The forces set free by the withdrawal of this influence have operated in largely increasing the demand for gold, and in diminishing to some extent the demand for silver, thus causing a distinct appreciation of the former, and a certain depreciation of the latter, considered in their relations "inter se."

(c.) These effects have been increased by a diminished production of gold, and an increased production of silver.

(d.) Concurrently with these changes there has been a large addition to the supply of important commodities due to the increased efficiency of labour, both in production and transport, thus causing a reduction in their prices.

(e.) The joint result of those several causes has been a considerable appreciation of gold, causing a marked fall in gold prices and some appreciation of silver, although apparently not enough to produce any distinct effect on the general level of silver prices in countries with a silver standard.

(f.) The inference to be drawn from these conclusions appears to be that the divergence is due far more to the appreciation of gold from monetary causes, than to the depreciation of silver and of commodities from other causes affecting them both in equal degree.

(g.) The effects of the divergence have been injurious :—

(i.) From an appreciation of the gold standard.

(ii.) But far more from instability of exchange between gold and silver using countries, and especially between the United Kingdom and India.

(h.) The remedy for these evils is to be sought in the adoption, if possible, of the free coinage of both metals into legal tender money at a fixed ratio between them, over a sufficient international area, for the following reasons :—

(k.) A single standard of value is admitted to be of so much importance that in all civilized countries it is always adopted as a basis of national exchange and contracts.

(l.) Such a standard can only be less important in international transactions because they are less numerous, and the inconveniences of different standards of value are less intolerable ; but it is not denied that they exist, and that as the foreign trade of commercial countries assumes year by year larger proportions, so do the evils of different standards of value year by year increase in magnitude.

(m.) But it is impossible to create a common standard of value in the international transactions of countries which now use gold and silver respectively as a standard, if such common standard is to consist of one metal only, neither gold nor silver existing in sufficient quantity for such a purpose, without causing such a disturbance in prices as would amount to a commercial and financial revolution.

(n.) Therefore, it is only by the full utilisation of both metals through the adoption of free coinage into legal tender money of both, with a fixed ratio between them within a sufficient international area, that this result is attainable.

(o.) It only remains to consider whether it is better, both metals being indispensable for the purposes of the world's currency, that they should be rated or unrated. If they are rated a single standard of value may, it is held, be secured for national and international exchanges. If they remain unrated they will continue to be liable to constant variations in relative value, and all the evils of two different standards of value in the trade of the world, and even within the limits of the British Empire itself, will still be allowed to hamper and restrict commercial progress.

(p.) It is thought that of these two alternative courses, the first is preferable, but as it can only be rendered successful by the concerted action of the principal commercial powers, no opinion is expressed as to the possibility of its adoption.

LOUIS MALLET.

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## Note by Mr. Barbour.

### *Grounds of Dissent from Part II.*

I regret that I have been unable to sign Part II. of the Report.

The following are the reasons which prevent me from doing so:—

The method adopted for deciding whether the change in the relative value of the precious metals in recent years is due to appreciation of gold or depreciation of silver is not satisfactory, especially as gold prices and silver prices are not dealt with in the same way. Sufficient importance is not attached to the dangers and difficulties of the future if the hope of establishing comparative stability of relative value between the precious metals be finally abandoned. Too great weight is attached to the risks and difficulties attending the establishment of the full legal tender of both gold and silver in this country. The remedies, or palliatives, proposed are, in themselves, insufficient to secure a satisfactory settlement of the question.

Although I concur in the conclusions arrived at, and remedies proposed in Part III., it appears to me that the subject might with advantage have been treated in a somewhat different way, and some of the arguments and objections set forth at greater length. I have therefore decided, after much hesitation, to add the following remarks on my own behalf.

#### *What is meant by "Appreciation of Gold" and "Depreciation of Silver."*

2. The terms of the order appointing the Commission may be said, briefly, to require us to examine—

1. Whether the changes in the relative values of the precious metals are due to appreciation of gold or depreciation of silver.
2. Whether these changes are causing permanent and important evils.
3. Whether these evils (if they exist) can be remedied by measures which would not give rise to other evils equally great.

The first question that arises on this reference is what meaning should be attached to the expressions "appreciation of gold" and "depreciation of silver"?

3. Strictly speaking, "appreciation of gold" means an increase in the value of gold, but value expresses a relation, and gold cannot increase in value except in relation to some other thing for which it is, or can be, exchanged. The phrase "appreciation of gold," when not used with special reference to an article, or a group of articles, for which gold is exchanged, can only mean a rise in the general purchasing power of gold, or, in other words, a rise in the average purchasing power of gold in reference to things in general.

Value expresses a relation. Increase in the value of gold meaningless, except with reference to something for which gold is, or may be, exchanged.

No method has been devised whereby the average purchasing power of gold, in this very wide sense, can be determined with accuracy.

If the gold price of every commodity, and of every kind of labour, had fallen in all parts of the world, there could be no question but that there had been an "appreciation of gold." On the other hand, if the silver prices of all commodities, and of every kind of labour, had risen, we might safely say that there had been a depreciation of silver. But the facts are not so simple; the gold prices of all commodities and services have not fallen; the silver prices of all commodities and services have not risen. The task of combining the average prices of all commodities and of every kind of labour, in all parts of the world, and of allowing for variations in the quality and quantity of each article, and of efficiency in every kind of labour, in such manner as to accurately measure appreciation or depreciation in the sense just referred to, is one which has not been, and probably never can be, successfully accomplished.

Impossibility of measuring the average increase or decrease in the value of gold with reference to everything.

4. Results of a more or less useful character might be obtained by arranging commodities and different kinds of labour in groups, obtaining an approximate statement of the change in the purchasing power of gold in relation to each group, and drawing a general conclusion from a consideration of the aggregate of these statements. But, unfortunately, an invidious meaning is generally attached to the terms "appreciation" and "depreciation" when used in relation to the standard of value, and inquirers do not always approach the question of the appreciation of gold or depreciation of silver with impartial minds. An excessive issue of inconvertible paper

Invidious meaning attached to the terms "appreciation" or "depreciation" of the standard of value.

money is always attended with a fall in the value of such money below its nominal value in gold. It is then said to be "depreciated," and the statement is accurate so long as it is understood to mean that the nominal value of the paper money is greater than its actual gold value in the market. All the evils which generally attend the over-issue of inconvertible paper become attached in the public mind, by a natural process, to the phrase "depreciation" of the standard, and "appreciation" is held to indicate evils of an opposite nature, but equally grave in character. As a consequence of this state of feeling the advocates of any standard of value instinctively feel that their case is materially prejudiced in public opinion if they admit that that standard has either appreciated or depreciated, though it is quite certain that every standard must, as a rule, be either appreciating or depreciating in some degree.

Complication due to attempt to divide causes affecting the value of gold into causes primarily affecting gold and causes primarily affecting commodities.

5. A further complication has been introduced into the question by a proposal to limit the meaning of the phrase "appreciation of gold" to a rise in the value of gold due primarily to causes affecting gold. I venture to think, with all deference to those who hold the opposite opinion, that the distinction attempted to be drawn is radically unsound, and that any attempt to apply it in practice would only produce error and confusion.

It is impossible to separate the causes producing an alteration in the relative value of gold and commodities into causes primarily affecting gold and causes primarily affecting commodities. A great increase in the production of commodities means a great increase in wealth, and would ordinarily be attended with an increase of demand for gold. The prices of some commodities would fall because they were produced in increasing quantities; the prices of commodities generally would tend to fall because there was an increased demand for gold, and there are no means of saying how much of the alteration in price in the case of any commodity is due to increased production and how much to increased demand for gold.

If, as has just been shown, it is impossible to determine with accuracy the increase in the general purchasing power of gold, *à fortiori*, it is impossible to determine what portion of such increase is due to causes primarily affecting gold.

*Expediency of avoiding the use of the terms "Appreciation of Gold" and "Depreciation of Silver."*

6. Looking, then, to the invidious meaning attached to the terms "appreciation" and "depreciation," as applied to the standard of value, to the impossibility of measuring with precision the change in the purchasing power of the standard, and to the opening for endless controversy which is afforded by any attempt to do so, it appears desirable to avoid, as far as possible, the use of the terms "appreciation" and "depreciation."

Possibility of avoiding altogether the use of the terms "appreciation" and "depreciation" of the standard.

An examination of the order of reference to the Commission will show that the practical issues involved do not necessarily require a precise apportionment of the extent to which either gold or silver may have appreciated or depreciated. The question of practical interest is whether the changes in the relative values of the precious metals are causing serious evils, and whether it is possible to remove these evils without causing other evils equally great. The question of the appreciation of gold or depreciation of silver is really subsidiary to this main issue. If it can be shown that the changes in the relative value of the precious metals are causing serious evils, and that it is possible to remove these evils without causing other evils equally great, it will be just as desirable to do so, whether we hold that gold has appreciated and silver depreciated, or come to the conclusion that silver has appreciated and gold depreciated.

7. I propose, therefore, to invert to some extent the order of the reference, and to consider in the first place what evils (if any) the changes in the relative values of the precious metals are causing, and whether it is desirable to attempt to remove them. I shall entirely avoid the use of the terms appreciation of gold and depreciation of silver, unless when referring to arguments in which these phrases are used, and I shall deal with the facts which are alleged to indicate appreciation of gold or depreciation of silver, simply as a portion of the evidence of the existence of evils arising from the alterations in the relative value of gold and silver.

*Acknowledged Evils caused by the Changes in the Relative Value of the Precious Metals.*

8. It is an evil of great magnitude that since 1873 the nations of the world should have been divided into two groups using different metallic standards, which in that

time have altered nearly 30 per cent. in relative value. Every person in this country who had his capital invested in silver standard countries has, from his point of view, lost on an average two per cent. of his capital every year for the last 15 years. Every person residing in a silver standard country who had his capital invested in a gold-using country, finds that Rs. 1,000 so invested is now worth very nearly Rs. 1,430; a gain, from his point of view, of 43 per cent. in that time, or very nearly three per cent. per annum, over and above whatever the rate of interest on his investment may have been.

9. Nor is it reasonably open to doubt that competing industries in the gold and silver countries respectively have been seriously affected by such a change. Adjustments of wages and fixed charges are no doubt continually taking place, but adjustments corresponding to an alteration of 30 per cent. in price can hardly have taken place with complete effect in so short a time, and where these adjustments take the form of a fall in wages they are necessarily attended with friction, loss, and inconvenience.

10. So marked a change in the relative value of the two standards in the short space of 15 years necessarily produces a feeling of uncertainty as regards the future, and those who have capital to invest must seriously consider the relative advantages of investment in gold standard and silver standard countries. This argument applies not merely to investments at a fixed rate of interest, but to investments for profit in industrial enterprises.

The excess rate of profit in industrial enterprises conducted on a silver basis must be sufficient to balance the prospect of a loss of capital from a fall in the relative value of silver, and an exaggerated estimate of the probability of such loss, and of its amount, would doubtless be taken by many, if not most, investors. I do not hold the extreme view that there would have been no fall in the rate of interest and no reduction in the rate of profit in industrial enterprises in gold-standard countries if there had been no currency changes, and no divergence in the relative value of gold and silver, for there have obviously been other causes at work which would, in any case, have produced a material effect in this direction. On the other hand, I see no reason to doubt that the uncertainty as to the future relative value of the two standards, and the prospect of a fall in silver relatively to gold, have checked the flow of capital to silver-standard countries, and caused it to be retained in gold-standard countries more largely than it otherwise would have been, and that both the rate of fixed interest and the rate of profit in industrial enterprises are lower in gold countries and higher in silver countries than they would have been if there had been a common standard. These are the results which would naturally flow from such a state of things, and the actual facts, so far as we are acquainted with them, confirm the conclusions based on what may be called theoretical considerations.

11. Before passing from this portion of the question it is desirable to call attention to the effect which the alteration in the relative value of the precious metals has had on the value of the savings of those nations whose accumulations of wealth largely take the form of hoards of the precious metals.

The native of India who put away Rs. 1,000 in silver in 1873 now finds it worth exactly Rs. 1,000; but the native of India who hoarded Rs. 1,000 in gold in 1873 now finds his hoard worth about Rs. 1,430.

The hoard of each has been equally safe, but the one has made a gain of 43 per cent. as compared with the other. This fact has a special bearing on the possible results of any further steps in discarding silver as standard money.

The alteration in the relative value of silver, hitherto, has been gradual and unforeseen. Every rise in the silver price of the metal gold acted for the time as a check on purchases of that metal, but attention has now been directed to the question of the relative value of the precious metals, and every step towards the further demonetisation of silver would have an exaggerated importance attached to it.

If the opinion prevailed in the East that the gold price of silver would fall another 30 per cent. during the next 15 years, an impulse would be given to the hoarding and accumulation of gold in preference to silver, and to the withdrawal of capital from silver countries, which might have very serious results.

12. The fluctuations in the relative value of gold and silver are also a distinct hindrance to trade between gold and silver using countries, but on this point I do not desire to add anything to what is contained in Part II. of the Report.

Competing industries unfairly influenced by the existence of monetary standards fluctuating in relative value.

Impediment to free trade in capital.

Effect of the change in the relative value of the precious metals on the value of hoards.

Possibility of future dangers arising from this case.



is absorbed into a vast ocean of circulating medium without producing any perceptible effect; if less gold is produced, and if the demand for gold increases, the deficiency is at once made up by an expansion of credit. In short, they appear to believe that by an accidental and unregulated combination of the metal gold, and of credit in its innumerable forms, which expands or contracts according to subtle influences operating on the human mind, we have obtained a measure of value which is as perfect in its way as the yard or inch, though nothing is more certain than that such a measure of value can exist only in the imagination.

First theory, that the fall in the gold price of silver would be followed by a rise in silver prices.

Disproved by a fall in gold prices and not by a rise in silver prices.

Second theory, that the increased production of silver prevented a great fall in silver prices, due to cheaper production of commodities.

Unsupported by the facts as to the relative production of gold and silver.

And disproved by an examination of the relative amounts of new gold and silver placed on the market.

A consideration of the relative demand for the two metals points to the same conclusion.

Great demand for gold for non-monetary purposes.

22. When the gold price of silver began to fall, the opinion was very generally entertained that the fall was due to increased production of silver. It was argued that silver would flow in increasing quantities to the silver-using countries, and that prices and wages would rise in those countries. Attention was called as early as 1876, by the Government of India, to the fact that it was gold prices that were falling, and not silver prices that were rising, and the experience acquired since that year has conclusively shown that the fall in the gold price of silver has been accompanied by a great fall in gold prices and not by a rise in silver prices.

It has lately been said that the explanation was incomplete, and not positively erroneous; that simultaneously with the great production of silver, there was a great lowering of the real cost of producing commodities; that gold prices have fallen from this cause, and that the fall in silver prices, which would have taken place from a lowering of the cost of production of commodities, has been balanced by the increased production of silver.

It can be shown that the facts relating to the supply of, and demand for, the precious metals lend no support to this theory.

23. In 1881-85, as compared with 1866-70, the production of gold fell off by about 6,000,000*l.* sterling yearly, while the production of silver only increased by about 12,000,000*l.* sterling yearly (valuing silver at the ratio of 1 to 15½). Why should an increase of 12,000,000*l.* yearly depreciate the silver standard by about 22 per cent., when a decrease in the production of gold by 6,000,000*l.* yearly had no effect on the gold standard?

If we consider the increased demand for both gold and silver by the United States in recent years, we obtain very remarkable results. The figures given in para. 36 of Part I. show that the supply of new gold to the markets of the world outside the United States was less in 1881-85 than in 1866-70, or even 1871-75, by no less than 15,000,000*l.* yearly; while the figures in para. 27 (c) show that the excess yearly supply of silver in 1881-85 over the supply in 1866-70 was only about 5,300,000*l.*, and there was practically no increase of supply in 1881-85 as compared with 1871-75.

Why should a reduction in the supply of gold to certain countries to the extent of 15,000,000*l.* sterling yearly not affect the value of gold in these countries, when an increase in the supply of silver by 5,300,000*l.* yearly has so marked an effect on the value of that metal?

It cannot reasonably be argued that a falling off of 63 per cent. in the supply of gold to certain countries had no effect on the value of gold in these countries, while the maintenance of the same average supply of silver to India lowered the value of the standard of that country by 22 per cent.

24. The argument that the divergence in the relative value of gold to silver is not due simply, or mainly, to increased supply of silver relatively to the demand for that metal, is strengthened when we consider the alterations in recent years in the respective demand for the two metals.

Wherever, outside the United States, gold has been substituted for silver, the increased demand for gold should equal the reduced demand for silver. In addition, gold has been substituted for paper to some extent, and the fact that a large quantity of silver coin is now over-valued, and not available for international purposes, as well as other causes, has led to considerable accumulations of gold in certain countries over and above what would in other circumstances have been thought necessary.

Another important factor in the question is the apparent growth of the demand for gold for non-monetary purposes. On this point I cannot do better than quote the words of Dr. Soetbeer.

"I have already ventured upon the attempt to make an approximate estimate of the application of the precious metals to industrial purposes in the civilized countries, taking an average of the last few years, of course allowing a large margin for error.

"I have again brought them forward because there are applications of the metals which were then either partially or wholly unknown to me, and which might lead to an alteration of the estimate. However considerable the colossal sum of gold annually applied to ornamental and other industrial purposes may at first sight appear, all doubt of the probable truth of the estimate will disappear when we consider how enormously the demand for gold articles and for manufactured gold goods has arisen, owing to increase of population and prosperity.

"In silver, unfortunately, no such additional demand for industrial purposes has been hitherto noticeable."

It is worthy of notice that while the total yearly supply of new gold to countries outside the United States appears from the figures given in paragraph 36 of Part I. to have been only 9,672,000*l.* in recent years, Dr. Soetheer estimates the consumption of new gold for industrial purposes in the same countries at 70,500 kilos. yearly, or about 9,835,000*l.* sterling.

It follows from these figures that the total supply of monetary gold in civilised countries outside the United States in very recent years must actually have been diminishing by the quantity necessary to make up the amount by which the supply of new gold fell short of the quantity used for industrial purposes and absorbed in the less advanced countries.

25. In face of the facts just stated there appears to be no good ground for the contention that gold prices have fallen (say) 28 per cent., simply from altered cost of production of commodities, and that silver prices have not fallen 28 per cent., owing to the influence exerted on them by the increased production of silver and reduced demand for it.

A fall in the gold price of silver amounting to 28 per cent., assuming the gold prices of commodities to remain stationary, would necessitate a rise in silver prices of no less than 39 per cent. To believe that the alterations in the demand for, and supply of, the precious metals just referred to, have not affected gold prices in any degree, and have exercised an influence on silver prices corresponding to that which would be required to raise them 39 per cent., is practically to suspend the operation of the law of demand and supply in the case of one of the precious metals, while holding that it applies in full force to the other. No satisfactory reason can be shown for making such a distinction between the laws affecting the value of gold and those affecting the value of silver, and this contention appears to be due to that prepossession in favour of the stability of the standard of value which we are accustomed to use to which I have already referred.

Laws regulating the value of silver not different from those regulating the value of gold.

26. The following figures are not without interest in connexion with this portion of the question:—

Period.	Average Yearly net Imports of Gold into England.	Average Yearly net Imports of Silver into India.
	£	£
1858-60	3,795,000*	10,300,000†
1861-70	5,546,000*	9,700,000†
1871-76	3,345,000*	2,800,000†
1877-80	-1,400,000	8,400,000†
1881-85	-468,000	6,100,000†

\* Financial years.

† Ten rupees taken as equivalent to one pound sterling.

I do not know how it can reasonably be contended that the Indian standard in 1885 was depreciated to the extent of 25 per cent. as compared with the years 1858 to 1870 by an excess supply of silver, when the supply of silver was one-third less in the latter than in the former period, and that at the same time the English standard was wholly unaffected, although the supply of new gold actually ceased for a time, and more gold was exported than imported. The accuracy of the English figures of the import and export of gold is no doubt open to question, but I do not think it can seriously be questioned that the supply of new gold to England has materially fallen off in recent years.

Illustrations of the unsoundness of the argument that the increased supply of silver to India has depreciated the standard of that country by 25 per cent.

27. As the statistics of the demand for, and supply of, the precious metals, show that the influences tending to raise the value of gold have been of greater magnitude than those tending to lower the value of silver, an attempt has been made to show

Third theory that the economies of gold have

counteracted the increased demand. that credit and expedients for economising gold have counteracted the effects of the undoubted increase of demand for gold and reduction in supply.

Indefinite meaning of "credit." Credit is a term of wide and indefinite meaning, and appears to include a number of things differing in themselves and in their effects on prices, or the relation of exchange of the standard commodity for other commodities.

An extension of credit may in some cases effect an economy of gold. It is conceivable that a system of credit might effect an economy of gold; might enable 500,000 sovereigns to do work which formerly required 1,000,000 sovereigns. So far its influence would be exerted in the direction of lowering the value of gold and so increasing prices, by practically increasing the supply of that metal.

Or it may merely meet a new demand. It is also not merely possible but probable that at certain times a great extension of what is called credit merely indicates the springing up of a new class of business for which credit is required, and an extension of credit of this nature could not have any direct effect on the value of gold.

Or it may actually increase the demand for gold. A great extension of credit in a poor and backward country might have the effect of enabling men of enterprise to obtain a supply of capital, and might in this way increase the quantity of commodities produced, and so have a material effect in the direction of reducing the prices of certain articles. The increase of wealth which would accompany this increase of commodities might in turn increase the demand for gold, and thus have a further effect in lowering prices. It would obviously be impossible in such cases to analyse the resultant alteration in prices, and say how much of it was due—

- (1) To positive economy of gold;
- (2) To increase in the quantity of commodities;
- (3) To increased demand for gold.

No proof of any net economies of gold in recent years. 28. It has been urged that there have actually been such increases in the economies of gold in recent years as to counterbalance the special demands for that metal and the falling off in supply. I can only say that, so far as I can form a judgment on the question, this fact has not been proved, and that, on the whole, there does not appear to be any evidence in support of it in which confidence can be placed. Even assuming that there has been a great extension of the banking system on the Continent in recent years, there is not a particle of evidence to show that such extension has done more than, or even so much as, cover the increase of that class of business in which credit is ordinarily employed.

Increased demand for gold in France. In December 1873 the note circulation of the Bank of France amounted to 2,886,300,000 francs, while the total amount of gold in the bank was only 611,300,000 francs. In June 1886 the note circulation was almost the same (2,828,308,470 francs), while the gold reserve was 1,377,367,074 francs, showing an increase in the use of gold of over 30,000,000*l.* sterling. If we included the increase in the metallic reserve in the form of silver coins (equivalent in France to gold) the total additional demand would be more than 69,000,000*l.*

I can find no evidence of any economy of gold in recent years which would in any appreciable degree balance so great an increase in demand.

Arguments regarding the economies of gold effected by credit, railways, and telegraphs disproved by a consideration of the case of the United States. 29. Stress has also been laid on the economy in the use of gold effected by the extension of railways and telegraphs. That some economy is effected in this way cannot be doubted, but it is impossible to show the amount of the economy, and it is probable that the increase in wealth due to the construction of telegraphs and railways, and the stimulus to the exchange of commodities between different regions to which they give rise, more than counterbalance the economies. The case of the United States in recent years affords a striking example of the futility of attempting to argue that the extension of credit and the construction of railways and telegraphs necessarily effect any considerable economy in the use of gold. It is stated by the Hon. David A. Wells that "there has been during the last 15 years a great development in the United States in the use of cheques, bank credits, and bills of exchange, and other instrumentalities whereby the use of precious metals is economised." And we know that simultaneously there has been a marvellous extension of railways and telegraphs.

These changes are put forward as the great causes of economy in the use of gold, and yet we find that simultaneously the demand for, and absorption of, gold by the United States has very greatly exceeded that of any other country.

30. It is hardly necessary to examine the alleged instances of the economies of gold in this country, based on such facts as the great extension of the use of postal notes and cheques for small amounts. In neither case is any attempt made to estimate the actual amount of the economies of gold, and in the case of postal notes it can be shown that the economies are, at best, comparatively trifling. In the case of cheques for small amounts, there has probably been some economy; but there is little reason to suppose that its amount is considerable, or sufficient to meet the increase in the demand for gold, which naturally follows an increase of wealth and population. It is probable that the increase in the number of cheques for small amounts arises, to some extent, from a change in the mode of business, due to the habit of paying at once instead of running up bills.

Amount of ret. economies of gold in this country unproved, and probably insignificant.

31. I understand, however, from § 50 of Part II., that the theory of the fall in the value of silver owing to the mere increase in the quantity of silver produced is practically abandoned, and that the fall in the value of silver is ascribed according to one theory to the increase in quantity plus sentimental considerations which acted on the value of silver when it ceased to be freely coined into money in the West, and according to another theory to the increase in quantity coinciding with a great cheapening of English goods and an increase of the international indebtedness of the countries which chiefly absorb silver, and especially of India.

These theories are contained in §§ 51-67 of Part II., and the following is as correct a summary as I am able to make.

Gold prices have fallen on account of the increased or cheaper production of commodities. Other things being equal, silver prices would have fallen to the same extent, but it so happened that simultaneously silver became a mere commodity in the West and in the United States. Apprehensions were entertained regarding its future; sentimental considerations play a great part in determining market prices; a depressed market, in the absence of some new stimulus, generally tends to further depression, and consequently a direct effect was produced on silver in excess of what might reasonably be anticipated from a consideration of alterations in its supply and monetary use only.

Theory of the fall in the price of silver owing to sentimental considerations.

The case of gold was different. There is no great central market where gold is disposed of by sale, where the daily quotations of price influence men's minds. Consequently, assuming the alterations in the supply and use of the two metals to be of equal potency, a greater depreciation of silver might be manifested than of gold.

The second theory is that, simultaneously with the great and general reduction in cost of production which is said to have occurred, there was an increased production of silver to the extent of 10,000,000% yearly. This was primarily an addition to the markets of the civilised world. In this portion of the world there was a stock of about 392,000,000% worth of silver coins, but the whole of this amount was maintained at an artificial value, with the exception of about 82,500,000%. Consequently, the addition of 10,000,000% yearly to a stock of only 82,500,000% had a great effect on the value of silver, and silver fell largely in value in the markets of the civilised world.

Theory that cheapening of commodities balanced cheapening of silver, and that the growing indebtedness of India reduced the demand for silver.

The East, and India especially, is the great absorber of silver, and under ordinary circumstances this silver would have flowed to the East and raised wages and prices; but simultaneously there was a great and general cheapening of production, leading to a fall in gold prices, so that the fall in gold prices balanced the profit to be derived from exporting the cheap silver and importing Eastern goods, and consequently there was no increase of demand for silver. There has also been a growing balance of indebtedness against India which helped to reduce the demand for silver in that country.

32. The preliminary objection to this method of dealing with the question is that gold and silver have not been treated alike. Causes have been shown to exist which would tend to cause a fall in the prices of certain commodities, whether measured in gold or silver, and it has been assumed (not proved) that these causes were sufficient to balance the effect of any influences which may have tended to cause a rise in prices, and, in addition, to cause the whole, or nearly the whole, of the fall in gold prices which has actually taken place. The fall in gold prices having been explained by this means it became necessary to account for the absence of so great a fall in silver prices, and theories have been devised for this purpose, which appear to me to be far-fetched and insufficient.

Gold prices and silver prices not dealt with in the same way.

I venture to think that it is not possible to test variations in the standard of value by examination of the prices of particular commodities, and that to whatever standard

Impossible to test variations in the

standard by examining causes alleged to affect the prices of commodities.

this method is applied the result will always be the same, namely, that alterations in price will appear to have been produced entirely by causes affecting commodities. On this point I can quote the opinion of an economist (Professor Jevons) who devoted much time and labour to this subject.

“Not a few able writers, including Professor T. C. Leslie, who lately addressed you on the subject, are accustomed to throw doubt upon all such conclusions, by remarking that until we have allowed for all the particular causes that may have elevated or depressed the price of each commodity we cannot be sure that gold is affected. Were a complete explanation of each fluctuation thus necessary, not only would all inquiry into this subject be hopeless, but the whole of the statistical and social sciences, so far as they depend upon numerical facts, would have to be abandoned. It has been abundantly shown by Quetelet and others that many subjects of this nature are so hopelessly intricate that we can only attack them by the use of averages and by trusting to probabilities. The price of any one commodity, even silver, utterly fails as a measure of the value of gold, because it is sure to be affected by numerous conflicting causes of rise and fall, no one of which we can accurately estimate. Even the intimate knowledge which a merchant gains of the commodity in which he deals is insufficient to enable him to explain, still less to predict, the changes in its price with confidence.”

The “demand” for commodities.

33. It is probable that this inability to detect an alteration in the standard by examining the causes of the changes in price of commodities largely arises from the fact that we are accustomed to measure the demand for a commodity by the price which people are willing to give for it, and that the increase or decrease in the value of the standard appears to us to be simply a decrease or increase in the demand for commodities. If the price of an article rises, the supply remaining the same, it is usual to say that the change is due to increased demand. The increased demand may be due to the fact that people have a stronger desire for the commodity, or that they have more of other things to give for it, or that, the value of money having fallen and the real demand (that is, desire to possess and supply of commodities to give in exchange) remaining the same, the nominal demand, or demand measured in money, has increased. Consequently, every alteration in the value of the standard assumes the form, in practical business, of an increase or decrease in the demand for commodities relatively to the supply, using the word “demand” with the meaning which is ordinarily attached to it.

There is one way, however, in which the soundness of this method of testing variations in the standard can be verified. Let the same test be applied with equal care to both gold prices and silver prices in the gold-using and silver-using countries respectively. If it can be shown that gold prices are just what changes affecting commodities would make them, and that silver prices are just 39 per cent. higher than what they ought to be, having regard only to changes affecting commodities, the depreciation of silver to the extent of 28 per cent. will have been proved, and the correctness of the method vindicated. Until this is done, the argument that silver must have depreciated because gold prices, or certain gold prices, appear to have fallen from the supply increasing more rapidly than the demand, is without force.

Price not permanently determined by sentimental considerations, but by the operation of economic forces.

34. Referring to the first theory, it seems open to doubt whether prices in the great markets of the world, such as those in which silver is bought and sold, are determined by what may be called sentimental considerations except for comparatively short periods. The price of silver is no doubt fixed from time to time by the buyers and sellers in the markets of the gold-using countries, and their minds are liable to be influenced by what may be called sentimental considerations, but, if these considerations lead them to fix a price which is either higher or lower than the economic conditions will justify, a force is immediately brought into play which tends to redress the error. If the London market were to fix the price of wheat to-morrow at 20s. a quarter, from sentimental reasons, a force would come into play which would very quickly cause the price to rise. If, on the other hand, sentimental considerations led to the price being fixed at 60s. a quarter, there would be such an increase of supply that an immediate fall would be produced. Local markets, no doubt, take their prices, to a very large extent, from the central markets, but there is no ground for supposing that a central market can permanently impose on other markets a scale of price which is inconsistent with the existing economic influences.

A depressed market tends to recovery, and not to

Nor does there appear to be any ground on which it can justly be said that a depressed market, in the absence of any new stimulus, generally tends to further depression. On the contrary, a depressed market, in the absence of any new and

special cause of depression, always tends to a recovery from depression. This must be so, unless it be the case that a fall in value neither tends to increase consumption nor to diminish production. further depression.

London does not produce silver, and consumes comparatively little, and it is not reasonable to assume that sentimental considerations acting on the minds of the buyers and sellers of silver, in London or in any other city or country in the West, can have depreciated the monetary standard of such countries as India or China by 30 per cent.

The position would be indeed serious if London, or the West generally, possessed the power which is ascribed to it. How could a country, however rich or powerful, protect its standard of value against so subtle an influence? If this theory were correct, sentimental considerations acting on the minds of persons who neither produce nor consume silver, and who merely act as middlemen between the producer and the consumer, might seriously depreciate the monetary standard of a whole continent.

35. Turning to the second theory, I venture to think that there is no ground for the assumption that the value of silver is primarily determined in the markets of Europe and America by a comparison of the quantity of silver offered for sale with the quantity of silver in those countries in the form of coin of full weight to which it may be added. The demand of the East is the chief demand for silver, and silver is continually being shipped from Europe to the East, and from America to China. Can it be credited that in determining the price of silver in the first instance the chief source of demand is overlooked, and the value of silver fixed simply with reference to the supply and the less important demands for it?

No ground for assuming that the price of silver is determined in the first instance without reference to the demand of the East.

A minor, but important, objection is that in putting the increase in the supply of silver at 10,000,000% worth yearly, the great increase of demand for silver in the United States has been overlooked. The figures given in § 27 of Part I. show that the increase has not been 10,000,000% sterling, but 5,300,000%, rating silver at 1 to 15½, or about 3,700,000% at the present sterling value of silver.

Nor is it easy to see why the cheaper production of English goods should prevent silver from going to the East, as has been sometimes alleged, any more than the cheaper production of cotton goods should prevent hardware from going there. If the silver that was offered for sale did not go to the East, where did it go, and where is it now? The East has taken all the silver that was offered, and must do so while its standard is silver.

If the large imports of cheap Western goods have lowered the value of silver there is a remedy which the silver-using countries can apply. They have only to impose protective import duties so as to shut out these cheap goods. I do not doubt that the sudden imposition of heavy import duties in the silver countries would for a time have the effect of increasing the demand for silver and raising its price, but would this be its permanent effect? Is it not the case that a measure of this sort ultimately diminishes exports just as much as it does imports? If so, protective duties would not *permanently* increase the demand for, and raise the value of, silver.

36. With all deference to those who hold a different opinion, it appears to me that the explanation given in § 60 of Part II., why silver has not gone to the East, is unsound. Commodities, it is said, have fallen in gold price from causes affecting commodities; silver has fallen in gold price in Europe from the same cause. If the only change had been the fall of silver in gold price the demand for the East would have absorbed large quantities of silver, because it would have been profitable to export the cheap silver to the East and purchase Eastern commodities and import them into Europe. But as commodities had fallen in gold price from causes affecting commodities there was no such profit to be made by the export of silver, because the reduced gold price exactly balanced the extra profit that would have been derived from the lowered value of silver. Consequently, silver fell in value without any considerable quantity of it being exported to the East.

However ingenious this explanation may appear at first sight, it contains a fatal flaw. The fall in prices from increased production would have affected silver prices just as much as gold prices; and the lower gold price for which the imported Eastern commodities sold, would have been exactly balanced by the lower silver price for which they could have been purchased. If under such circumstance silver had also fallen relatively to gold, the profit to be made by exporting the cheaper silver would have been undiminished. The explanation in fact assumes (1) that the increased production of commodities would only affect gold prices and not silver prices, and (2) that silver prices were maintained 39 per cent. higher than they otherwise would



have been by a not very great increase in the supply of silver which did not go to India.

Difficulty of drawing up a correct account of international indebtedness.

37. It is always a matter of extreme difficulty to draw up a correct statement of the balance of international indebtedness, because it is not easy to ascertain what items should be shown on each side of the account, because the amount of some of these items can only be ascertained approximately, and because the value of other items is quite unknown.

The first objection I take to the statement in § 66 is that it avowedly omits the following three items, the omission of any one of which, as I hope to show, is sufficient to destroy the entire value of the argument:—

3. Freights on exports, minus expenses incurred in India.

4. Private remittances of money and securities from India.

8. Privates remittances of money and securities to India.

They are said to be “probably unimportant as compared with the others, and there is no reason for thinking that they would materially alter the balance.”

The items avowedly omitted from the account in section 237 (e) are sufficient to destroy its value.

It may be admitted that these items are small as compared with the total value of the exports or imports, but they are not small as compared with the net result on which the question of indebtedness depends, and an error of two or three millions sterling, owing to the omission of these items, might totally alter the aspect of the question of indebtedness. For example, India has exported more than 1,000,000 tons of wheat in a single year, the freight on which may be taken at 1,000,000*l.* sterling, or say *Rx.* 1,400,000. The freight payable on rice and seeds would come to quite twice this amount, and there is besides, the freight payable on very many other articles. The omission of freight alone vitiates the account by more than *Rx.* 5,000,000 yearly, an amount sufficient to entirely alter the character of the result.

The omission of freight on exports alone is sufficient to do so.

In reality, however, the omission of freight on exports has not vitiated the result to anything like this extent. Freight on exports has been wrongly shown as a liability of India, and the omission of this item in the account has merely redressed the error. India has been charged the freight on imports, because this freight is included in the valuation of the imports as landed in India, and she cannot fairly be charged with the freight on exports also. India should, however, have been credited with that portion of the expenditure in connexion with freight on exports which was incurred in India.

The omission of private remittances of money and securities to and from India sufficient to render the account untrustworthy.

38. It is impossible to say what the amount of private remittances of money and securities may be in any year, but they vary from year to year, and may, between any two years, make a difference of several millions on one side of the account or the other, an amount quite sufficient to entirely alter the character of the result deduced from the figures.

I may also point out that private remittances of securities from India have been wrongly shown under liabilities of India, and private remittances of securities to India have been wrongly shown as a means of payment. The items ought to be transposed. If somebody in India sells an Indian security to somebody in England, the transaction counts in the international trade for the time being as an export from India, and therefore as a means of discharging an international liability.

Although this error has been made in the text of § 66, the remittances of enfaced paper have been correctly dealt with in the actual account. A further explanation, however, is needed in regard to this matter. If an Englishman in India saves money and invests it in Government paper, and on return to England has his Government paper enfaced and brings it with him, the transaction does not affect the international account of the year either one way or the other.

Errors in the valuation of exports and imports sufficient to seriously affect the account.

39. Another objection is, that the value of the exports and imports of merchandise cannot be ascertained exactly. If the export of merchandise happened to be overstated in any year by only two per cent., and the imports understated in the same proportion, the error in the final result would be no less than *Rx.* 3,100,000, an amount sufficient to entirely alter its character. If the error was in the opposite direction in the next year, there would be an apparent difference in the international indebtedness of the two years of *Rx.* 6,200,000.

Error in connexion with the imports on Government account.

The imports on Government account have also been wrongly included in the imports of merchandise. They are paid for by the India Council bills, and India cannot be made to pay for them twice; first when they are imported as merchandise, and secondly, when bills are drawn for their value. The error arising from this cause alone was no less than *Rx.* 3,844,000 in 1885–86, *Rx.* 3,115,000 in 1886–87, and *Rx.* 2,619,000 in 1887–88.



40. Another source of error is that, in many years, a considerable amount of the imports (such as railway plant and machinery) really represents the investment of English capital in India, is not paid for at the time, and consequently has no effect on the exchange of the year. Of course all investments of foreign capital affect the exchange in subsequent years when profits or interest come to be remitted from India; but such investments are generally made in industries connected with the international trade, and, so far as they increase Indian exports, they counteract the tendency to a fall in the exchange, owing to the remittance of profits. It is quite possible, and even probable, that an investment of foreign capital in India might so increase the exports as to favourably influence the exchange. For example, if 1,000,000*l.* sterling is invested in jute mills, and such investment increases the exports of India by 200,000*l.* yearly, while only necessitating the remittance of 50,000*l.* yearly on account of the profit, the international account has been altered *in India's favour* to the extent of 150,000*l.* (200,000*l.* minus 50,000*l.*), and the tendency is to raise, and not to lower, exchange. The investment of foreign capital in tea gardens in India is a case in point. The whole of the exports of tea from India are due to this cause, and the value of these exports is much more than sufficient to cover the remittance of profits, and pay for such articles of import as are required in the manufacture of tea. The international equation has consequently been altered to the advantage of India, and not to her disadvantage, by these investments.

Error in connexion with the investment of capital in India.

Investments of foreign capital in India often affect the balance of indebtedness to the permanent advantage of India.

41. Apart from this question of the untrustworthiness of the account of India's international indebtedness as actually made up, there is the further objection that, when two standards are altering in relative value, the balance of indebtedness always turns in favour of the country where the standard is relatively appreciating. Let us suppose that there are two countries which trade together and have different standards, and that after the relative value of the two standards has remained steady for a time, one of them begins to appreciate, and all prices measured in that standard begin to fall. The rate of exchange having been fixed by the course of business will remain the same until an influence comes into operation which alters it. In the meantime the fall in the prices of articles imported into the country where the standard is appreciating checks such imports, while the fall in the prices of exports stimulates them. An unfavourable balance of trade is thus created, and the two standards alter in relative value. An unfavourable balance of trade is the mode by which an alteration in the relative value of two independent standards shows itself, and proves absolutely nothing as to whether the cause of the alteration is increase in the value of the one standard or fall in the value of the other standard.

Even if it could be shown that the balance of indebtedness had been turning against India and other silver-using countries, this result would prove nothing.

I entirely agree with the remarks contained in §§ 63-65 of Part II., but wish to add that the relative scale of prices in two countries is the predominating influence in permanently determining the flow of bullion from one to the other, and it does so by acting on the balance of international indebtedness. I fully believe that if the system of double legal tender had been maintained, less silver would have been exported to the East in recent years, but it does not follow that this result would have been due to a reduction of demand for silver in India. The distribution of the precious metals, when used as standards of value, is determined by the *relative* demand of different countries. A cessation of the flow of silver to India, under a system of double legal tender, might indicate that the Western demand was stronger, and not that the Eastern demand was weaker. The general fall in prices, and the reduction in the supply of gold in Europe, appear to me to prove that the reduced supply of silver to the East, which would have occurred if the old system had been maintained, would have been due to an increase of demand in the West, rather than the falling off of the demand for the East.

42. If an unfavourable balance of indebtedness was growing up against India simply because she had larger payments to make without receiving a direct commercial equivalent, such a state of things would check, not merely the import of silver into India, but the import of every commodity. Is it, then, the case that the exports of merchandise from England to India have grown less rapidly than exports from England to other silver-using countries? If this is not the case, the growing indebtedness of India cannot have *especially* checked imports into India, imports of silver included.

Taking the three quinquennial periods from 1873 to 1887, it will be found that English exports to India increased in value 14.1 per cent. in the second period, and in exactly the same proportion in the third period.

The more rapid increase of exports to India than to other silver-using countries proves that her trade is not unduly hampered by the India Council drawings.

The mere fact that one country makes a payment to another without receiving a direct commercial equivalent proves nothing as to their relative advantage in the international trade.

Taking the other silver-using countries, China, Straits Settlements, Japan, Ceylon, Mauritius, Mexico, and Central America, the increase in the second period is only 6·7 per cent., while there was an actual decrease of 2·8 per cent. in the third period.

If the exports from England to India have increased much more rapidly than the exports from England to other silver countries, it is clear that any special hindrance to exports of all kinds (including silver) from England to India arising out of the drawings of the India Council must have been of comparatively minor importance.

43. It is commonly said that if one country has a payment to make to another, the country which has the payment to make trades at a disadvantage. The theory, as a theory, is unassailable. But in practice there are many more important factors which influence international trade, and, as has already been shown, if the payment is made on account of foreign capital judiciously *invested*, the net effect of the whole transaction may be to improve the relative position of the country which has the payment to make.

Payments, for which no direct commercial equivalent is received, are made in an increasing amount to England every year by foreign countries, and consequently the relative position of England in the international trade should, according to the theory just stated, be steadily improving, and England should be receiving an increasing quantity of foreign produce in exchange for her exports. Yet the facts since 1873 do not bear out this contention. If we take the price of a certain quantity of English exports in 1873 at 100*l.*, and the price of a certain quantity of English imports at the same figure, the prices of the same quantities in 1886 will be 62*l.* and 69*l.* respectively, according to Mr. Giffen's figures.

We thus see that, if a certain quantity of English exports exchanged for a certain quantity of imports in 1873, the same quantity of exports would in 1886 have failed to exchange for the same quantity of imports in the proportion of 62 to 69.

In other words, goods for goods, England was making a worse bargain internationally in 1886 than in 1873 by 11 per cent.

It is true that in 1873 England was exchanging her exports for foreign products on specially favourable terms, but the figures just given show that the question of the relative indebtedness of different nations is a comparatively minor factor in determining the conditions of the international trade.

No reason to suppose that India is making a worse bargain now than she did before the drawings of the India Council increased.

44. There are no figures of equal authority which can be used in determining on what terms India is now trading with other countries as compared with former times, but all the inquiries I have made point in the same direction, namely, that a certain quantity of Indian produce laid down at Calcutta or Bombay will at the present time exchange for a larger quantity of imported goods than it would have done in 1870 or 1873. The theory that India is hampered in her foreign trade by the drawings of the India Council appears, therefore, to be without foundation. That India would be wealthier if these drawings ceased, while India retained the advantages arising from the causes which have brought about the drawings, may certainly be admitted. That India would now be importing more goods of all kinds, including silver, if the causes which have led to the drawings of the India Council had never come into operation, is not merely unproved, but is absolutely opposed to the facts so far as they can be ascertained.

Summary of objections.

45. It will be convenient to sum up the objections which I take to the explanation given of the fall in gold prices, and the alteration in the relative value of gold and silver.

1. The method adopted for testing the variation in the standard by examining the causes for the rise or fall in price of particular commodities is unsound.
2. It is misleading to apply it only to gold prices and not to silver prices.
3. The theory that silver has fallen in value from sentimental considerations rests on no good basis.
4. The theory that the cheapening of commodities prevented the cheap silver from being exported to the East is founded on the fallacy that increased production of commodities would affect gold prices, and would have no effect on silver prices.
5. The account showing the growth of an unfavourable balance against India is untrustworthy.
6. An alteration in the relative value of two standards is always attended with a growing balance of indebtedness in favour of the country where prices are falling, and proves nothing as to the causes of the alteration in relative value of the two standards.

*Index Numbers.—The Relation between Gold, Prices, and the Rate of Discount.*

46. There are other questions of great complexity connected with the currency question which I would gladly have avoided, but as they have been raised, and stress laid on the evidence which they are supposed to afford, I cannot avoid dealing with them.

They are :—

- (1.) What value is to be attached to the evidence afforded by what is known as the system of index numbers?
- (2.) How does gold affect prices?
- (3.) What is the relation between prices, the supply of gold, and the rate of discount?

47. The evidence of the system of index numbers is to the effect that as regards commodities constituting a large and important section of the wealth of the world, the purchasing power of gold has, in recent years, materially increased. They also show that in regard to most, if not all, commodities included in this group, the purchasing power of gold has increased, though in very varying degrees. They do not show that the average purchasing power of gold in respect to everything has increased, but this result may with some probability be inferred unless it can be shown that the rise in the value of gold in relation to the articles included in the various systems of index numbers is balanced by a fall in the value of gold in relation to other articles. This has not been done.

Value of the evidence afforded by the index numbers.

48. Price is the relation of exchange between the standard commodity and other commodities, and there does not appear to be any difficulty in holding that an increase or decrease in the standard commodity affects the ratio in which it exchanges for other things. It would, indeed, be very difficult to hold the contrary view.

Increase in the supply of gold must, in some degree, affect prices.

There is better ground for holding that an increase or decrease in the quantity of gold has less effect on prices than is sometimes supposed; it appears, however, to be quite possible that an injurious fall of prices, or rise in the value of gold, may take place in a country without a reduction in the total supply of gold to the world, and due simply to the increased demand for gold arising from an increase in the production of commodities in another country. In face of the fact that gold and silver have altered 30 per cent. in relative value in 15 years, and that gold and silver prices of articles interchanged between the gold and silver countries have altered in a corresponding degree, it cannot reasonably be held that the standard has practically no effect on the rise or fall of prices.

And the alteration in gold and silver prices in recent years shows that in some instances the question of the standard has a very material influence on prices.

49. Arguments have been drawn from the low rate of discount in recent years to show that there can have been no "scarcity of gold." The question of the connexion between the supply of gold, the rate of discount, and prices, is probably the most difficult and obscure in all political economy, but this at least is certain, that there is no connexion between the permanent or average rate of discount and the purchasing power of gold. The contention, however, is that gold exercises no influence on prices (in the more advanced countries) except through the rate of discount, and that as the rate of discount has been low and uniform in recent years there can have been no such scarcity of gold as to cause a fall in prices.

Argument from the low rate of discount rests on an unproved and improbable hypothesis.

The argument is, at first sight, plausible, but to establish its soundness it would be necessary to show that the rate of discount is necessarily high and fluctuating when the standard is rising in value, and low and uniform when the standard is falling in value.

There have been many cases in which the standard was undoubtedly depreciated by an over-issue of inconvertible paper. There have been other instances where the reverse process took place, and a depreciated paper underwent relative appreciation by a return to specie payments. If the argument just referred to were sound, it should be possible to show that in the former class of cases the rate of discount was low and uniform, and in the latter class that it was high and fluctuating. This has not been done, and the ablest economists are, I believe, of opinion that it could not be done. Until the principle has been established by an appeal to undoubted facts the argument founded on a low and uniform rate of discount is without force.

Nor can it be said that gold only acts on prices through an actual rise in the rate of discount. The apprehension of a rise may exercise a very potent influence on the mind.

The theory that a general increase in the purchasing power of gold cannot take place without an actual scarcity of gold being experienced for purposes of business appears to be based on the assumption that in such cases the general average of prices would remain unaffected until it was suddenly discovered that there actually was not enough gold to meet the demands for that metal. This assumption overlooks the fact that what we call the average of prices is made up of an indefinitely great number of transactions between intelligent beings, and that in each such transaction the prospects of the future are discounted, and the demands upon gold gradually and insensibly adjusted to the available supply.

An injurious rise in the value of gold may be caused by increased production of commodities.

50. The value of gold may rise not merely because there is a reduction in the total quantity of gold, but because there is an increased demand for it.

If there are three countries A, B, and C, of which A and B have the same, and C a different standard, and if from increase of wealth in A an economic influence comes into play which causes a flow of the material of the standard from B to A, I see no reason why a fall should not occur in the first instance in the prices of certain articles in A, followed by a fall in prices in B; the final result might be a flow of (apparently) superfluous gold from B to A, and a rise in the value of gold in B, unattended by any cheaper or increased production of commodities in that country, or by any perceptible rise or rapid fluctuations in the rate of discount.

The other country, C, having a different standard, would not be affected in the same way. The economic changes at work in A might tend to cause a flow of the commodity used as the standard from C to A, but such flow being rendered impossible by the difference in standard, the result would be that the general level of prices in C would be unaffected, and trade between the two countries would be adjusted by an alteration in the rate of exchange between A and C; in other words, an alteration would disclose itself in the relative value of the standard of A and B on the one hand and C on the other, which might be correctly described as an increase in the value of the standard in A or B rather than as a fall in the value of the standard in C.

#### *Injurious Increase in the Value of Gold.*

51. I have made the preceding remarks on the influence of gold and credit on prices, and the connexion between gold, the rate of discount, and prices, with much unwillingness, for I cannot pretend to explain the subtle phenomena connected therewith. They are merely intended to show that the question of an injurious rise in the purchasing power of the standard cannot be decided by speculations of a hazardous character, regarding the connexion between prices, gold, credit, and the rate of discount. The questions to be decided are not speculative but practical. Has the purchasing power of the standard in any country or countries increased? If so, has such increase been injurious, and could it have been avoided in whole or in part?

The currency question should be dealt with on a practical rather than on a purely theoretical basis.

In the present state of our knowledge the question of an increase in the purchasing power of the standard can only be decided by an actual appeal to wages and prices.

The further question, whether any portion of the fall could with advantage have been avoided, is one which must be decided on different considerations, and with reference to the effects which may have attended the increase in the purchasing powers of the standard.

Evidence in support of an injurious rise in the value of gold.

52. Dealing with the question from a practical standpoint, what we find in this country is,—

1. A great, and with some exceptions, a general fall in prices.
2. Complaints of the burden of fixed charges, rents, royalties, railway freights, and so forth.
3. A reduction in the rate of profit and of interest.
4. A certain amount of want of employment.
5. Considerable reductions in money wages in very many industries.
6. A long-continued period of what is called "depression" in trade and industry.

These facts indicate a state of affairs in which an increase in the value of gold, whatever the cause of such increase may be, has produced injurious results, and the reduction in the amount of income per head of population, assessed to the payment of income tax shown by the figures in Appendix B., coupled with the tendency to a fall in wages, appears to me conclusive on this point. It has been urged by more than one economist that in recent years influences have come into operation which have increased the share of the products of industry which falls to

the wage-earning classes. Assuming this view to be correct, it would follow that, under ordinary conditions, their rates of money wages should have materially increased, and the fact that they have not done so and have even fallen in some degree, affords a strong confirmation of the view that there has been a general rise in the value of gold.

53. If it had been possible to employ both gold and silver as standard money in the same manner in which it was formerly possible to do so, the increase in the value of gold would have been lessened, and beneficial results would have followed unless the change in the direction of lowering the value of gold would have been so great as to produce injurious consequences of an opposite character.

The question of the actual amount of good which would have been done by the maintenance of the old system appears to be one on which it is impossible to arrive at any precise conclusion, but it is a noteworthy fact that the periods of heavy fall in gold prices, and of a fall in the income per head of population assessed to the payment of income tax, coincide in a remarkable manner with the periods of heavy fall in the gold price of silver, as is shown in Appendix B. to this note. It is, fortunately, much more easy to decide whether the maintenance of the old system would have led to an injurious fall in the value of gold. In the first place, it will be observed that in silver-using countries no evil results, so far as regards the working of the standard of value in use in those countries, appear to have followed the divergence in the relative value of gold and silver. Prices have not risen in any injurious degree or even to any perceptible extent, there are no complaints of the burden of fixed or customary payments; there is no decrease of employment leading to a lowering of wages, and though there may be some tendency to a rise in money wages, yet it cannot be said that any injurious results are flowing therefrom. The feeling of depression in trade has not been so great as in countries using the gold standard. Netherlands India, where the gold standard was adopted, has assuredly not gained by the change in comparison with the other Eastern countries which maintained the silver standard.

If there is no reason to suppose that the maintenance of a purely silver standard in recent years has injured any country, except in so far as it may have had financial and commercial relations with countries using the gold standard, it necessarily follows that the maintenance of the old system of double legal tender would not have produced injurious results either in the countries that did so or in countries using the single gold standard.

54. Nor do the figures of the production of silver afford any ground for alarm. If the supply of gold to countries outside the United States has fallen off by 15,000,000*l.* yearly, and the supply of silver to the same countries has only increased by 5,000,000*l.* yearly, there is no reason to fear that an arrangement whereby the deficiency in the gold supply would have been counteracted to the extent of one-third of its amount by silver would have produced an injurious fall in the value of gold. Even if the higher gold price of silver had caused an increased production of that metal to the extent of 10,000,000*l.* yearly, the additional supply would not have done more than meet the reduction in the supply of gold. In the period from 1821 to 1840 the annual average supply of both gold and silver amounted to about 7,200,000*l.* yearly. In the period 1861-70 the average yearly supply was about 37,400,000*l.*, an increase of more than 30,000,000*l.* yearly. A similar increase in excess of the production of 1861-70 would bring the total production of the present time up to 67,400,000*l.* yearly, and as the production of gold is about 20,000,000*l.* yearly, the production of silver would have to increase to 47,000,000*l.* yearly to make up this total. There is no good ground for supposing that the total production of silver would increase to this figure even if the price of silver rose to 60 $\frac{1}{2}$ *d.* per oz., or, if it did, that it could be maintained at that rate, and as the total stock of both gold and silver, as well as the total wealth of the world, is now much greater than in 1840, an increase of 30,000,000*l.* yearly would in all probability produce a much less effect than at the time of the great gold discoveries.

55. Summing up the conclusions to which these facts and arguments point, it may be said that there is every reason to believe that the maintenance of the old system of double legal tender would have been a gain to this country by mitigating or preventing, in a greater or less degree, an injurious increase in the value of gold (from whatever cause it may have arisen), and there is no ground for supposing that it would have lowered the value of gold to such an extent as to produce any injurious results.

The injurious effects of this rise in the value of gold would have been mitigated by the maintenance of the system of double legal tender.

And there would not have been any risk of an injurious fall in the value of gold.

The figures of the production of silver afford no ground for alarm under a system of double legal tender.

In the preceding arguments, and in the calculations on which they are based, I have assumed that the ratio of 1 to 15½ was preserved. If a system of double legal tender were adopted in the present day at, or near, the market ratio of gold and silver, an additional safeguard would be provided against any possible injurious lowering of the value of the standard, but there does not appear to be any good ground for apprehensions of this nature.

*Advantages which would have been gained by the Maintenance of the System of Double Legal Tender.*

Loss arising from the abandonment of the system of double legal tender.

56. It may then be said that if the old system of double legal tender had been maintained—

1. A purely beneficial influence would have been exerted in the direction of preventing a rise in the value of gold.
2. Trade between gold and silver using countries would have been facilitated.
3. Industries in gold countries which compete with similar industries in silver countries would have been relieved from unfair, though temporary, causes of depression.
4. There would have been no impediment, arising from currency causes, to the free employment of capital in countries where the return promised to be greatest.
5. The financial difficulties of the Government of India, arising from an alteration in the relative value of the two standards, would have been prevented.

It cannot be doubted that these gains would, in the aggregate, have been of great importance, and, as has been shown, they would not have been attended with any counterbalancing evil in the direction of an injurious depreciation of the standard.

*No Permanent and Satisfactory Solution of the Currency Question possible without the Adoption of the System of Double Legal Tender.*

57. The arguments in favour of a reversion to the old system, which are based on the possible dangers and difficulties of the future, are still stronger.

We can state, with some attempt at accuracy, the evils which the abandonment of the system of double legal tender has actually produced up to the present date, but we cannot measure the magnitude of the evils which it may produce in the future.

There must be some line of monetary policy which in the future will give the most satisfactory results, and it is that policy which we should attempt to discover.

Impossible to demonetise silver everywhere and substitute gold.

An obvious line of policy would be to demonetise silver as standard money everywhere, and to replace it by gold, but the experience of the last few years shows that this course would be attended with the most serious risks, and it hardly seems necessary to consider it as a possible solution of the currency question. If this policy were inevitable the free coinage of silver by the Indian Mints should be stopped at once; the greater the delay in doing so the greater the ultimate loss to India. This would be the first step, but what the final result would be it is impossible to conjecture.

Impossible to divide the nations of the world permanently into gold-using and silver-using countries.

Another course would be to divide the nations of the world into gold-standard and silver-standard countries, and admit once for all that there must be two independent metallic standards in the world. A little reflection will show that the objections to this course are also insuperable. No satisfactory principle can be devised on which the division could be based. It has been suggested that gold should be used by wealthy nations and silver by poor ones, but it is difficult to suppose that the nations which it was proposed to stamp as "poor" would accept the classification, and it is quite certain that they would not promise to remain poor in order that the accuracy of the classification might remain unimpaired. On the contrary, the very fact that the nations using silver were to be considered "poor" might be a powerful inducement to a progressive country to change from the silver to the gold standard. Nor is it quite certain that the relatively wealthy nations of to-day will always retain the same position.

Impossible to maintain the status quo.

A third course would be an agreement that no nation should make any change in its currency arrangements in future. But an arrangement of this nature is easily seen to be impracticable. If gold prices and wages should in time fall so largely as to lead to the belief that gold was a very undesirable monetary standard, could a



nation be blamed for attempting to escape from it? If silver fell still more in value relatively to gold, could a country like India, which has intimate financial relations with Great Britain, be prevented from adopting the same standard as Great Britain? Would England and her dependencies which now use silver formally renounce for all time the hope of some day establishing a common standard? Could the United States be induced to continue to coin so many silver dollars every year, no matter what might happen?

France and other countries have a large amount of silver coins, the nominal value of which is now about 44 per cent. in excess of the market value of the silver contained in them. The position must have been very nearly, if not quite, reached at which false coining in good silver will be so profitable as to lead to its being practised on an extensive scale. If false coining on a considerable scale took place, could France be prevented from withdrawing her silver coins and replacing them, wholly or in part, by gold? Above all, what is to be done with countries which now use inconvertible paper? They could not be bound down to continue to do so, and if they returned to a metallic standard they must choose either gold or silver. Even if the countries of the world were permanently divided into gold-using and silver-using nations, or if all nations agreed to preserve the *status quo*, we should remain liable to continual fluctuations in the relative value of the two standards, with the attendant risks and inconveniences.

58. No solution of our present currency difficulties can be either satisfactory or permanent which does not give practically the same monetary standard to every country; which does not provide for the full use of both the precious metals as standard money; and the less the inducement to change of standard the sounder and safer will the system be.

Conditions necessary for a permanent and satisfactory solution

These requirements would be completely met by a system under which silver was made the legal standard in every country, any country which wished to do so being at liberty to make gold also full legal tender on the sole condition that the ratio for the legal tender of both gold and silver shall be the same everywhere. The effect would be exactly the same if those countries that wished to make both gold and silver legal tender chose gold as the standard, and made silver legal tender at a certain ratio. What is absolutely essential to the success of the system is that silver should be legal tender as well as gold in certain countries, and what is desirable is that the number of countries using the single gold standard should be reduced to a minimum.

These conditions can be fulfilled only by a system of double legal tender.

Assuming that this system were generally accepted, put into practice, *and maintained*, I can see no evils that would arise from it.

The system of double legal tender if established *and maintained* involves no risk.

If it be said that some nations or banks would hoard gold, it may be replied that they do so now, and that under the proposed system, when silver would be freely available for international purposes, the inducement would be less.

If it be said that nations wishing to go to war would accumulate gold, the same answer may be given, and it may be added that with silver freely available as money, the hoarding of gold would be of less importance.

If it be said that nations might issue inconvertible paper, it may be replied that they might do so under the present system, that the issue of inconvertible paper would not interfere with the system of double legal tender, and that the evils of such issue would be less when they could be spread over the whole world.

If it be said that in the course of ages the value of gold as compared with silver might rise above the legal ratio, I would ask what evils would flow therefrom? The cheaper metal (silver) would be the standard in every country, and there would be no fluctuation in the relative value of the standards of different countries. Every person having a debt due to him would be entitled to receive either gold or silver at the legal ratio. If he is paid in silver he is paid in a metal which is freely coined into money everywhere, and he suffers no loss or inconvenience. If he is offered gold at any ratio other than the legal ratio, he need not accept it unless he likes. If he accepts it at a value other than the legal ratio, it can only be because it suits him better to do so than accept a metal which is money everywhere, and if it suits him to do so he suffers no inconvenience therefrom, and he can have no ground of complaint. Under such a system, in short, each of the metals would by a natural process be devoted to that purpose for which it was best suited, and the existence of a temporary premium or *agio* on either of them would merely indicate that that metal was in such demand for some special purpose as to make it worth the while of the person who wanted it to pay something for the advantage.

Variation of the market ratio from the legal ratio would produce no ill-effects.



*No reasonable Ground for supposing that the System of Double Legal Tender, if once generally accepted and introduced, would be abandoned.*

The East would not abandon the use of silver, nor the American Continent. Nor would the Latin Union or Germany be likely to do so.

59. The fear that some nations might abandon the agreement either from hope of gain to themselves or from a desire to injure other nations is chimerical. There is no ground for supposing that in such case the great nations of the East, such as India and China, will abandon the use of silver, and there are very obvious reasons which will prevent the American Continent from doing so. Nor is there really any danger that the Latin Union would abandon the use of silver, to which the people have so long been accustomed. If Germany, after adopting the single gold standard, reverted to the use of silver also, is it likely that she would make a third change?

A nation could only depart from the system through a hope of benefiting itself, or of injuring its neighbour.

Assuming that all nations had the same standard, could any one nation hope to benefit itself by adopting a different standard from that of other nations? Or could it hope to injure another nation by a measure which would give it a different standard from all the rest of the world, and would leave the nation it wished to injure in monetary alliance with all other nations? England, no doubt, adopted the single gold standard in 1816, but the change was made in ignorance of the effects of an universal abandonment of the system of double legal tender, and without any intention of injuring other countries. It is a significant fact that silver was abandoned as the English standard in 1816 in direct opposition to the advice of Ricardo.

Prejudice in favour of gold as the monetary standard will disappear.

60. We know that at one time the opinion was held universally, or almost universally, that the wealth of a country depended on the quantity of the precious metals which it contained, that the export of these metals was prohibited, and that legislation was directed to controlling trade in such a way as to try to secure a continual stream of gold and silver into each country. Attempts were frequently made to attract gold (while still retaining silver) by raising the legal ratio of gold relatively to silver, and in very early times the absurd device was adopted of attracting silver by enacting that the crown or five-shilling piece should pass for 7s. 6d., the theory being that silver would flow where its value was greatest, and that by calling the crown 7s. 6d. instead of five shillings a higher value was thereby given to the silver contained in it. In Appendix A. to the Note will be found an extract from Gerard de Malynes' *Lex Mercatoria*, which shows what was the state of opinion on this subject in the reign of Henry VIII. In chapter xii. of Lord Liverpool's "*Coins of the Realm*" will be found a full account of the measures which James I. adopted for the purpose of attracting gold while also retaining silver. It is an historical fact that the ratio of 1 to 15½ (by which gold was overvalued at that time) was adopted in France in 1785 with the avowed object of attracting gold.

Nobody is now afraid that other nations will drain them of their wealth by attracting gold and silver, and the only Government which is accumulating gold (the United States) is actually alarmed at this result, and adopts special measures to throw it on the open market again.

May it not then happen that the prejudice in some minds in favour of gold as the sole monetary standard will disappear as completely as the old mercantile theory? It is based partly on a mistaken belief that gold must be the best standard because it contains much value in little weight and bulk, and partly on the alleged greater convenience of gold as coin. There is no ground for the former belief that will stand examination, and the greater convenience of gold as coin extends only to large payments, which are now generally made in paper. For the vast proportion of payments, even in the wealthiest countries, silver is more convenient than gold. If all silver coins disappeared from England the inconvenience caused by having to make all small payments with copper coin would be greater than the inconvenience of having occasionally to make large payments in silver if the gold coins disappeared.

The world has in reality had no experience of the single gold standard except since 1873, and the experience acquired since that date is decidedly against continuing the experiment.

*England would gain, financially, industrially, and commercially by the change.*

61. The argument that the financial position of England, and especially of London, would be injuriously affected, will not stand examination.

Financial position of England

The financial position of England depends very largely on the fact that her savings are great, and that she every year accumulates capital, which is either directly

invested or lent to others. Could her position in this respect be injured by a change which increased the demand for loans on the part of silver-standard countries, and facilitated the investment of capital in such countries? would be improved.

Her financial position also depends to some extent on her insular position and security from invasion, and in these respects it would be unaffected by a change in standard.

It also depends largely on her being a great trading power, carrying on business with all parts of the world, and in this respect her position would be improved if England's standard was the standard of the world instead of being the standard of one-half of it. England's commerce and industry would gain

Her financial position also depends on the prosperity of her industries, and these industries would gain rather than lose if any considerable divergence between the gold and silver standards could be prevented.

It is also said that bills are drawn on London, and arrangements made for the settlement of financial transactions there, because confidence is felt that gold can always be obtained in England if necessary. Financial position of London would not suffer.

But if silver were freely coined into standard money in all parts of the world, the advantage of being paid (in case of necessity) in gold instead of silver would disappear, unless in those very few cases in which that metal might be required for some special purpose. Such cases would be very few; and as London is the great silver market, though silver is not the standard, there is no reason why it should not continue to be a great market for gold, though gold was no longer the sole standard. On the whole there seems no reason to doubt that if the proposed system were introduced carefully, and with the consent of the country, the financial interests of England or London would not suffer in any respect; while in some important points they would materially benefit. The money-changer may, no doubt, make a profit, at the expense of somebody else, by a difference of standards; legitimate banking and financial business, as well as the interests of the industrial and commercial classes, can only be promoted by unity of monetary standard.

#### *Conclusion.*

62. For the reasons already stated I have agreed to the recommendations made in Part III. that the system of double legal tender should be established in this country, as the result of an understanding with other civilised countries. In view of the magnitude and importance of the question, of the possibility of opposition from influential classes, and of the difficulty of settling the ratio for legal tender at the present time to the satisfaction of all concerned, the change should be made gradually and after careful preparation.

63. Nobody desires that silver should continue to fall relatively to gold, and everybody, or almost everybody, would be glad to see it rise somewhat. Apart altogether from the question of gold prices, a further fall in the relative value of silver might lead to the United States or the Indian Government ceasing to coin that metal, with consequences which cannot be foreseen, but which must be serious. Or it might lead to the imposition of heavy import duties in India with injurious consequences both to England and to India. In England an ounce of standard silver is coined into 66*d.*, while the market price of the silver is (or was a few days ago) 42*d.* The gain on false coinage of English silver money *in good silver* is consequently no less than 57 per cent., and it is known that false coinage of this nature has already taken place, though there is no evidence of its having occurred, as yet, on a large scale. It is undesirable to maintain this temptation to such fraud; it would be very dangerous to allow it to increase, and it ought, if possible, to be reduced.

A similar state of things exists in France, America, and every other country which uses either token coins of silver, or silver coins, which, though full legal tender, are now over-valued.

Dr. Soetbeer estimated the nominal value of the total supply of silver coins in civilised lands at 392,000,000*l.* sterling at the close of 1885, and it is no doubt somewhat greater at the present day. Nearly the whole of this coin is over-valued, and its market value as silver is about 110,000,000*l.* below its nominal value; in other words, at the present price of silver, it would require an expenditure of 110,000,000*l.* sterling in the purchase of silver to increase these coins in such manner as to make their value as silver equal to their legal value. This state of things constitutes a danger not only for the countries which hold this silver, but for all countries using either the gold or silver standard.

64. On every ground of expediency, therefore, it would seem desirable to adopt at once any measure which, without being attended with evil results, would tend either to raise the value of silver, or to prevent a further fall. For these reasons I have no hesitation in supporting the adoption of the measures suggested in the Part II. of the Report, namely,—

1. The repeal of the duty on silver plate.
2. The issue of ten-shilling notes based on silver, the half-sovereign being gradually withdrawn.
3. The issue of one-pound notes based on silver.

As I do not hold that the fall in the value of silver relatively to gold has been caused mainly, or very greatly, by the increased supply of silver, I am not of opinion that the additional demand for silver created in this way would of itself have much permanent effect on the relative value of the two metals, but it would certainly have some effect, and the proposed measures would tend to create confidence in, or remove doubts as to, the future position of silver. This change of feeling might have a considerable effect both on certain classes of the public in this country and on other Governments. There would probably be no difficulty in combining these measures with concerted action on the part of foreign Governments tending in the same direction. The result could not fail to be a tendency to diminish the divergence in relative value, or to prevent it from proceeding so far as it otherwise would, and to this extent the effect would be beneficial in every respect. A feeling of confidence in silver would be generated, and if the small notes based on silver came into general use, the apprehensions of those who fear inconvenience from the more extended use of that metal in this country would disappear.

65. The further measure which would remove many difficulties, and ensure a final and satisfactory solution of the question, is the recognition by the British Government that the system of double legal tender is one which must ultimately be adopted, and towards which we should gradually move.

Such recognition would tend to remove the inducement which now exists to the hoarding and accumulation of gold rather than silver, and would bring into play influences which would have an exactly opposite effect. The metal which was likely to rise in relative value would be hoarded and accumulated rather than the metal which was likely to fall. In the meantime the action of Great Britain might remain unfettered both as to the time and manner of introducing the system of double legal tender and the conditions under which it would be adopted.

All which is submitted for Your Majesty's gracious consideration.

D. BARBOUR.

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### Appendix A. to Mr. Barbour's Note.

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Gerard de Malynes.—*Lex Mercatoria*, pp. 308-9.

“ This daily enhancing began in the time of Henry VIII., who went about to reform the same; but afterwards finding if he should still enhance his price of moneys, likewise they would still advance theirs more and more, he began but moderately; and whereas the Angell Noble (so called) was at six shillings eightpence, he caused the same to be valued at seven shillings and fourpence, by a Proclamation in the eighteenth year of his reign, and within two months after at seven shillings sixpence, and withall he did write unto other princes concerning the same, and commissioners came over about it, but all was in vain, whereupon he gave an absolute authority to Cardinal Wolsey by letters patent as followeth:

“ ‘ Henry the Eighth, by the Grace of God, King of England and of France, Defender of the Faith, Lord of Ireland, to the Most Reverend Father in God, Our Most Trusty and Most Entirely Beloved Councillor the Lord Thomas, Cardinal of York, Archbishop, Legat de Leicestre of the See Apostolic, Primate of England, and our Chancellor of the same, Greeting. Forasmuch as coins of money, as well of gold as of silver, he of late days raised and enhanced both in the realm of France, as also in the Emperor's Low Countries, and in other parts, unto higher prices than the very poiz weight and fineness and valuation of the same, and otherwise than they were accustomed to be current: by means whereof, the money of this our realm is daily, and of a long season hath been, by sundry persons (as well our subjects as strangers, for their particular gain and lucre) conveyed out of this realm into the parts beyond the seas, and so is likely to continue more and more, to the great hindrance of the generality of our subjects and people, and to the no little impoverishing of our said realm, if the same be not speedily remedied and foreseen. We, after long debating of the matter with you and sundry other of our Council, and after remission made unto outward Princes for reformation thereof, finding finally no manner of remedy to be had at their hands, have by mature deliberation determined that our coins and moneys (as well of gold as of silver) shall be by our officer of our Mint from henceforth made at such fineness, lay, standard, and value as may be equivalent, correspondent, and agreeable to the rates of the valuation enhanced and raised in outward parts as is afore specified.’ ”

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### Appendix B. to Mr. Barbour's Note.

#### THE FALL IN THE GOLD PRICE OF COMMODITIES SINCE 1873, COMPARED WITH THE FALL IN THE GOLD PRICE OF SILVER DURING THE SAME PERIOD.

1. In the following table, the Index No. of the "Economist" for 1st January 1873 is represented by 100, and proportionate numbers are given for subsequent years.

The gold price of silver for January 1873 is also taken at 100, and the price of silver for January of each subsequent year is represented by proportionate numbers.

1	2	3	4	5	6	7
Year.	Index No.	Price of Silver.	Fall or Rise in Index No. as compared with preceding Year.	Fall or Rise in Price of Silver as compared with preceding Year.	Fall or Rise in Index No. as compared with 1873.	Fall or Rise in Price of Silver as compared with 1873.
1873	100	100				
1874	97.7	98.1	-2.3	-1.9	-2.3	-1.9
1875	94.0	96.1	-3.7	-2.0	-6.0	-3.9
1876	91.7	92.7	-2.3	-3.4	-8.3	-7.3
1877	92.5	96.1	+3.8	+3.4	-7.5	-8.9
1878	85.8	89.8	-6.7	-6.3	-14.2	-10.3
1879	74.6	84.0	-11.2	-5.8	-25.4	-16.0
1880	85.8	87.7	+11.2	+3.7	-14.2	-12.3
1881	80.5	85.8	-5.3	-1.9	-19.5	-14.2
1882	82.8	86.8	+2.3	+1.0	-17.2	-13.2
1883	79.8	84.0	-3.0	-2.8	-20.2	-16.0
1884	74.6	85.0	-5.2	+1.0	-25.4	-15.0
1885	70.8	83.0	-3.8	-2.0	-29.2	-17.0
1886	68.6	78.0	-2.2	-5.0	-31.4	-22.0
1887	70.1	77.4	+1.5	-6	-29.9	-22.6
1888	75.3	74.4	+5.2	-3.0	-24.7	-25.6

2. Taking the period 1873 to 1886, it will be seen that there was an almost continuous fall in the prices of commodities, the downward tendency being checked temporarily in only three years, 1877, 1880, and 1882.

The course of the gold price of silver very closely coincides, the downward tendency having been checked in only four years, 1877, 1880, 1882, and 1884.

3. It will also be seen from Columns 6 and 7, that up to January 1879 the course of prices was steadily downwards (excepting 1877), and that the course of the price of silver was also steadily downwards, with the exception of the same year.

In both cases the maximum depression for the time was reached in 1879, and in the following year there was a marked rise both in the gold prices of commodities, and the gold price of silver, this rise being entirely lost by 1st January 1884 in the case of commodities, and very nearly lost in the same year by silver.

In 1884, the Index No. for commodities was 74.6, as against exactly the same number in 1879, while the price of silver in 1884 was 85.0, as against 84.0 in 1879. Between 1st January 1884 and 1st January 1886, the gold prices of commodities fell, and so did the gold price of silver. Subsequently to 1886 the agreement ceases. The gold prices of commodities rose in 1887 and 1888, while the gold price of silver fell.

4. The following table is constructed on a similar plan, Mr. Sauerbeck's Index Nos. being substituted for those of the "Economist," and the price of silver being taken

as the average of the year, because Mr. Sauerbeck's prices are also the average of the year:—

Year.	Index No.	Price of Silver.	Fall or Rise in Index No. as compared with preceding Year.	Fall or Rise in Price of Silver as compared with preceding Year.	Fall or Rise in Index No. as compared with 1873.	Fall or Rise in Price of Silver as compared with 1873.
1873	100	100				
1874	91·9	98·4	-8·1	-1·6	-8·1	-1·6
1875	86·5	96·0	-5·4	-2·4	-13·5	-4·0
1876	85·6	89·0	-9	-7·0	-14·4	-11·0
1877	84·6	92·5	-1·0	+3·5	-15·4	-7·5
1878	78·4	88·7	-6·2	-3·8	-21·6	-11·3
1879	74·8	86·5	-3·6	-2·2	-25·2	-13·5
1880	79·3	88·2	+4·5	+1·7	-20·7	-11·8
1881	76·6	87·2	-2·7	-1·0	-23·4	-12·8
1882	75·7	87·1	-9	-1	-24·3	-12·9
1883	73·9	85·3	-1·8	-1·8	-26·1	-14·7
1884	68·5	85·4	-5·4	+1	-31·5	-14·6
1885	64·9	82·0	-3·6	-3·4	-35·1	-18·0
1886	62·2	76·5	-2·7	-5·5	-37·8	-23·5
1887	61·3	75·2	-9	-1·3	-38·7	-24·8

5. Mr. Sauerbeck's Index Nos. show a considerably greater fall than those of the "Economist," and the agreement in details with the fall in silver is not so close up to 1886, but the general course is the same.

From 1873 to 1879 there is a continuous fall in gold prices, averaging 4·2 yearly, while the average yearly fall in the price of silver is 2·2.

In 1880 there is a rise both in the gold prices of commodities and in the gold price of silver, and from 1880 to 1883 the average fall in prices of commodities is only 1·8 yearly, while the average fall in the price of silver is only ·9 yearly.

After 1883 the prices of commodities fall rapidly, while it is only after 1884 that the price of silver fell rapidly.

6. There appear, from these figures, to be three well-marked periods in the case of commodities:—

I. From 1873 to 1879, a steady and continuous fall, the rate of fall being markedly reduced in 1876 and 1877.

II. From 1879 to 1883, a marked rise in the beginning, followed by a continuous, but not rapid, fall.

III. After 1883, a heavy fall, continuing to 1887.

The following are the corresponding periods in the case of silver:—

I. From 1873 to 1879, a fall which is continuous, with the exception of one year, the rate of fall being unusually high in 1876 (the year of panic), and a portion of this fall being recovered in 1877.

II. From 1879 to 1884, a marked rise in the beginning, followed by an almost continuous, but not rapid, fall.

III. After 1884, a heavy fall, continuing to 1887.

7. In the following table, the Index Nos. of Dr. Soetbeer are used in the same way as before:—

Year.	Index No.	Price of Silver.	Rise or Fall in Index No. as compared with preceding Year.	Rise or Fall in Price of Silver as compared with preceding Year.	Rise or Fall in Index No. as compared with 1873.	Rise or Fall in Price of Silver as compared with 1873.
1873	100	100				
1874	98·5	98·4	-1·5	-1·7	-1·5	-1·7
1875	94·2	96·0	-4·3	-2·4	-5·8	-4·1
1876	92·7	89·0	-1·5	-6·9	-7·3	-11·0
1877	92·7	92·5	0·0	+3·4	-7·3	-7·6
1878	87·6	88·7	-5·1	-3·8	-12·4	-11·4
1879	84·7	86·5	-2·9	-2·2	-15·3	-13·6
1880	88·4	88·2	+3·7	+2·6	-11·6	-11·0
1881	87·6	87·2	-0·8	-1·8	-12·4	-12·8
1882	88·4	87·1	+8	-1	-11·6	-12·9
1883	88·4	85·3	0·0	-1·8	-11·6	-14·7
1884	82·6	85·4	-5·8	+1	-17·4	-14·6
1885	78·9	82·0	-3·7	-3·4	-21·1	-18·0

8. In these figures also will be found an agreement of the same kind. From 1873 to 1879 there is a marked fall in gold prices, with a cessation of fall in only one year, 1877, the year in which the price of silver rose. In 1880, there is a rise in both sets of figures, and for three years there is very little alteration in gold prices, and for four years, only a slight fall in the price of silver. After 1883, gold prices fell largely, and so did the price of silver after 1884.

9. Fluctuations of the same character may be observed in the prices of British imports and exports as calculated by Mr. Giffen.

The following are the figures taken from paragraph 49 of Part I. of the Report:—

—	Price of Exports.	Price of Imports.	—	Price of Exports.	Price of Imports.
1873 - -	132	107	1880 - -	—	93
1874 - -	—	—	1881 - -	92	92
1875 - -	114	101	1882 - -	—	—
1876 - -	105	96	1883 - -	92	89
1877 - -	101	99	1884 - -	90	84
1878 - -	—	92	1885 - -	87	79
1879 - -	92	88	1886 - -	82	74

10. In the case of exports, the three periods are well marked. There is a continuous fall to 1879, and steadiness of price (so far as figures are available) from 1879 down to 1883, after which a continuous fall again sets in.

In the case of imports we have a continuous fall down to 1879, with the exception of a temporary rise in 1877. In 1880 there is a considerable rise, followed by a gradual, but not heavy fall down to 1883, after which year the fall again becomes heavy.

11. The same three periods can be traced in the average values of the imports and exports of the United Kingdom per head of population.

The following are the figures:—

—	Imports per Head of Population.	Exports per Head of Population.	—	Imports per Head of Population.	Exports per Head of Population.
	£ s. d.	£ s. d.		£ s. d.	£ s. d.
1873 - -	11 10 9	7 18 7	1880 - -	11 17 7	6 8 10
1874 - -	11 7 9	7 7 5	1881 - -	11 7 2	6 13 11
1875 - -	11 7 9	6 16 1	1882 - -	11 14 0	6 16 10
1876 - -	11 6 0	6 0 10	1883 - -	11 19 9	6 14 8
1877 - -	11 14 11	5 18 6	1884 - -	10 16 11	6 9 7
1878 - -	10 17 3	5 13 8	1885 - -	10 4 8	5 17 3
1879 - -	10 11 8	5 11 8	1886 - -	9 10 7	5 15 9

12. In the case of imports, there was a continuous fall from 1873 to 1879, with the exception of the one year 1877. In 1880 there was a rise, which was maintained with some fluctuations up to 1883, when a rapid fall set in.

In the case of exports, there was a continuous fall down to 1879. After 1879, a rise set in, which was not altogether lost, even in 1884. After 1884 a rapid fall set in.

13. The three periods can be traced, though more indistinctly, in the returns of the amount produced by each penny of the income tax per head of population.

The following are the figures:—

Year ending—	£
April 1, 1874 - -	17·1
„ 1875 - -	17·6
„ 1876 - -	17·7
„ 1877 - -	17·2
„ 1878 - -	17·3
„ 1879 - -	17·1
„ 1880 - -	16·9

} First Period.



Year ending—	£	
April 1, 1881 - - -	17·0	} Second Period.
„ 1882 - - -	17·2	
„ 1883 - - -	17·4	
„ 1884 - - -	17·6	
„ 1885 - - -	17·5	} Third Period.
„ 1886 - - -	17·3	
„ 1887 - - -	17·1	

It should be recollected that certain changes were made which affected the returns for 1877, and of course the amount assessed rather follows than keeps pace with the actual income.

14. It is instructive to compare the figures in this paper with the following facts regarding the fall in the gold price of silver.

Between 1872 and 1879 the fall in the price of silver was from  $60\frac{5}{16}d.$  per oz., to  $51\frac{1}{4}d.$  per oz., being  $1\cdot29d.$  per oz. yearly, or 2·1 per cent. yearly, spreading the percentage of fall uniformly over the seven years.

Between 1879 and 1884 the fall in the price of silver was from  $51\frac{1}{4}d.$  per oz., to  $50\frac{1}{8}d.$  per oz., being only  $\cdot12d.$  per oz. yearly, or  $\cdot23$  per cent. yearly.

From 1884 to 1887 the fall in the price of silver was from  $50\frac{1}{8}d.$  per oz., to  $44\frac{1}{8}d.$  per oz., being  $2d.$  per oz. yearly, or 3·9 per cent. yearly.

Not merely, then, is there a certain amount of agreement between the yearly fluctuations of gold prices of commodities, and the gold price of silver, but there is a very close agreement in the three well-marked periods into which the years since 1873 naturally fall.

15. It would appear that since 1873 there has been some law closely connecting the fall in gold prices with the fall in the gold price of silver, though its working is obscured by other influences.

But changes in the relative value of gold and silver may at one time be accompanied by changes in the level of gold prices, silver prices remaining comparatively unchanged, and at another time by changes in the level of silver prices, gold prices remaining more nearly the same.

Within the last two years, average gold prices have ceased to fall, and may even have risen slightly, but silver has continued to fall, though the rate of fall in 1887 and 1888 is less than in 1885 and 1886, and there has been recently a cessation of fall and even a certain amount of rise.

### Note by Mr. Samuel Montagu, M.P.

While agreeing with Part III. of the Report, I consider it necessary to indicate what, in my opinion, would be the most desirable ratio to fix and maintain by an International Convention. I fear that the divergence of gold and silver has extended so far that the reversion to the old ratio of  $15\frac{1}{2}$  to 1 could not take place without certain disadvantages. I prefer, therefore, that a ratio of 20 to 1 should be the one selected at an International Conference.

If that course were adopted the large export trade from India would remain unaffected, and in consequence we should continue to import raw materials from India and China at moderate prices. On the other hand, the Indian Government could calculate on a stable price for silver of about 4s. per oz., and a steady exchange of about 1s. 6d. per rupee, thus avoiding all the dangers which a further fall of silver would produce. The probable effects of the establishment of a ratio of 20 to 1 are indicated in a paper submitted to the Commission and printed in the Appendix.

It is also necessary to call attention to the fact that, owing to the depreciation of silver in gold-using countries, illicit coinage in good silver has taken place. Fears are entertained that with a further fall in the gold price of silver this evil is likely to extend, especially in this country, our coinage being issued at 5s. 6d. per ounce, or at a premium of over 50 per cent. above the present market price of silver. It is therefore argued that unless a bimetallic convention be effected, our coinage should be increased in weight at an expenditure of several millions sterling.

(Signed) SAMUEL MONTAGU.

~~L/594~~  
**R E P O R T**

FROM THE

SELECT COMMITTEE OF THE HOUSE OF LORDS

ON THE

**THRIFT AND CREDIT BANKS**

**BILL [H.L.]**

S 1532

TOGETHER WITH THE

PROCEEDINGS OF THE COMMITTEE

AND

MINUTES OF EVIDENCE.

XM, 62.3. NIT

Ordered to be printed, 11 July 1910.

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1910.

ORDER OF REFERENCE

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THRIFT AND CREDIT BANKS BILL

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*Die Martis, 28<sup>o</sup> Aprilis 1910.*

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Order of the Day for the Second Reading read: *Moved*, That the Bill be now read a second time: After short debate; *agreed to*: Bill read a second time accordingly, and referred to a Select Committee.

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*Die Jovis, 9<sup>o</sup> Junii 1910.*

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The following Lords were named of the Select Committee: Earl of Shaftesbury, Earl of Cromer, Lord Herschell, Lord Welby, Lord Northcote, Lord MacDonnell, Lord Mersey.

The Committee to meet on Monday next at Eleven o'clock and to appoint their own Chairman.

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*Die Lunæ 13<sup>o</sup> Junii 1910.*

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The evidence taken before the Select Committee from time to time to be printed, but no copies to be delivered out except to Members of the Committee, and such other persons as the Committee shall think fit until further order.

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*Die Lunæ 11<sup>o</sup> Julii 1910.*

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Report from the Select Committee (with Proceedings of the Committee) made, and to be printed. Minutes of Evidence to be delivered out.

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## R E P O R T.

By the SELECT COMMITTEE appointed to consider the THRIFT AND CREDIT BANKS  
•BILL. [H.L.]

ORDERED TO REPORT :—

That the COMMITTEE have met and considered the said Bill.

1. After hearing a considerable body of evidence the Committee have come to the conclusion that the object of the Bill is good, and that it is desirable to amend the present law so as to facilitate the creation of Thrift and Credit Banks, and to make provision for their development.

2. A large number (some hundreds) of such Banks already exist. They serve as loan societies and as saving banks, and are of great use to small farmers and others in their vicinity.

3. These Banks have for the most part been registered as "specially authorised" Societies under Sub-section 5 of Section 8 of the Friendly Societies Act, 1896. This Act fixes no limitation on the liability of the members, so that every member by joining becomes personally responsible in the event of liquidation for all the debts and obligations of the Society to which he belongs. In the opinion of the Committee this unlimited liability is a wholesome condition. It creates confidence among intending depositors, secures careful discrimination on the part of the managing members in the lending out of the Banks' moneys to borrowers, and also some assurance that the money will be used for the purpose for which it is borrowed.

4. The business, however, of the Banks so registered is, by the Statute as at present administered, confined to what may be called mere banking—that is to say, to the collecting and lending out of money; and it is felt that if power were given to the Societies to add to this business the business of co-operative trading, the members would derive much greater advantages from the Societies than they can do at present. The Committee take this view.

5. But, while expressing this view, the Committee desire to point out that Thrift and Credit Banks may, if they choose, elect to register themselves under the Industrial and Provident Societies Acts, 1893 and 1895, instead of under the Friendly Societies Act, 1896, and that by doing so they acquire the right of carrying on both a banking and a co-operative trading business. Such a registration, however, by the terms of the Statute has the effect of limiting the liability of the members, and in this respect it is not so advantageous as registration under the Friendly Societies Act.

The members of a Bank registered under the Friendly Societies Act may also, if they choose, form themselves into a separate Society, (as in fact some of them have done,) and register the same under the Industrial and Provident Societies Acts. They so secure power as one Society to carry on banking with unlimited liability, and as another Society to carry on banking and co-operative trading with limited liability. This plan has, however, been found cumbrous and difficult to work satisfactorily.

6. In these circumstances the Committee are of opinion that the law may advantageously be amended. It can be amended either by grafting co-operative trading powers on Societies registered as "specially authorised" Societies under the Friendly Societies Act, or by grafting unlimited liability on Societies registered under the Industrial and Provident Societies Acts. After consideration, the Committee think that the former would be the better plan.

7. The Committee therefore recommend that the Banks already registered under the Friendly Societies Act, and Banks which may be registered thereunder in the future, should be empowered to carry on jointly with their banking business a co-operative trading business.

The trading of each Bank should be confined to its own members, and the accounts should be kept distinct from the accounts of its banking business.

8. The Committee further recommend that the area of each Bank's operations should be limited geographically or otherwise, so as to enable each member of the Bank to acquire a personal acquaintance with the character and requirements of the members.

9. They also recommend that the certificate of registration should be made equivalent to incorporation (as under the Industrial and Provident Societies Act, 1893), so as to enable the Banks to sue and to be sued and to hold property in their registered names.

10. Power should be given to enable groups of Thrift and Credit Banks to combine for the purpose of forming a Central Bank. The number of Banks combining for this purpose should not be less than seven. They should each be entitled to hold one or more shares in the Central Bank, and should be entitled to deposit in it their surplus funds. The Central Bank should be registered under the Companies Acts, 1862 to 1890, with limited liability. Its object should be to receive deposits and to distribute the money by way of loan among the combining Thrift and Credit Banks according to their requirements, and generally to assist the working and development of the said Banks.

11. Thrift and Credit Banks should be empowered to deposit their surplus funds in a local Joint Stock Bank if they so desire.

12. The Committee are of opinion that means should be adopted to secure a strict observance of the requirements of the Act of Parliament with reference to the audit of the accounts of Thrift and Credit Banks.

13. The Committee, after consideration of the whole subject, have formed a clear opinion that Thrift and Credit Banks constituted on the foregoing lines will be of great service to the classes whose wants they are intended to meet, and they therefore suggest that the matter should receive the favourable attention of the Legislature.

14. The Committee finally recommend that a new Bill should be introduced incorporating alterations in the law in accordance with the foregoing suggestions. They do not therefore think it desirable to proceed with the present Bill.

The Committee have directed the Minutes of Proceedings to be laid before your Lordships.

11th July, 1910.

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LORDS PRESENT, AND MINUTES OF PROCEEDINGS AT EACH  
SITTING OF THE COMMITTEE.

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*Die Lünæ, 13<sup>o</sup> Junii 1910.*

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LORDS PRESENT:

Earl of Shaftesbury.  
Earl of Cromer.  
Lord Herschell.

Lord Welby.  
Lord Northcote.  
Lord Mersey.

The LORD MERSEY in the Chair.

The Order of reference is read.

It is moved, that the Lord Mersey do take the Chair.

The same is *agreed to*.

The course of Proceedings is considered.

It is moved, that the Committee be an open one.

The same is *agreed to*.

The following Witness is called in, and examined, viz., *Henry W. Wolff*. (See Minutes of Evidence.)

*Ordered*, That the Committee be adjourned to Wednesday next, at Eleven o'clock.

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*Die Jovis, 15<sup>o</sup> Junii 1910.*

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LORDS PRESENT:

Earl of Shaftesbury.  
Earl of Cromer.  
Lord Herschell.  
Lord Welby.

Lord Northcote.  
Lord MacDonnell.  
Lord Mersey.

The LORD MERSEY in the Chair.

The Order of Adjournment is read.

The Proceedings of Monday last are read.

The following Witnesses are called in, and examined, viz., *George Russell, J. Stuart Sim*. (See Minutes of Evidence.)

*Ordered*, That the Committee be adjourned to Monday next, at Eleven o'clock.

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*Die Lunæ, 20<sup>o</sup> Junii 1910.*

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LORDS PRESENT:

Earl of Cromer.  
Lord Herschell.  
Lord Welby.

Lord Northcote.  
Lord MacDonnell.  
Lord Mersey.

The LORD MERSEY in the Chair.

The Order of Adjournment is read.

The Proceedings of Thursday last are read.

The following Witnesses are called in, and examined, viz., the Right Honourable *T. W. Russell*, the Right Honourable *Sir Horace Plunkett*, K.C.V.O. (See Minutes of Evidence.)

*Ordered*, That the Committee be adjourned to Wednesday next, at Eleven o'clock.

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*Die Mercurii, 22<sup>o</sup> Junii 1910.*

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## LORDS PRESENT:

Earl of Shaftesbury.  
Earl of Cromer.  
Lord Herschell.  
Lord Welby.

Lord Northcote.  
Lord MacDonnell.  
Lord Mersey.

The LORD MERSEY in the Chair

The Order of Adjournment is read.

The Proceedings of Monday last are read.

The following Witnesses are called in, and examined, viz., *George Dudley Barlow*, Sir *George Murray*, K.C.V.O.

Mr. *Henry W. Wolf* and the Right Honourable Sir *Horace Plunkett*, K.C.V.O., recalled and examined. (See Minutes of Evidence.)

*Ordered*, That the Committee be adjourned to Monday, the 11th of July next, at Eleven o'clock.

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*Die Lunæ, 11<sup>o</sup> Julii 1910.*

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## LORDS PRESENT:

Earl of Shaftesbury.  
Earl of Cromer.  
Lord Herschell.  
Lord Welby.

Lord Northcote.  
Lord MacDonnell.  
Lord Mersey.

The LORD MERSEY in the Chair.

The Order of Adjournment is read.

The Proceedings of the 22nd of July last are read.

The following DRAFT REPORT is laid before the Committee:—

“That the Committee have met and considered the said Bill.

1. After hearing a considerable body of evidence the Committee have come to the conclusion that the object of the Bill is good, and that it is desirable to amend the present law so as to facilitate the creation of Thrift and Credit Banks, and to make provision for their development.

2. A large number (some hundreds) of such Banks already exist. They serve as loan societies and as savings banks, and are of great use to small farmers and others in their vicinity.

3. These Banks have for the most part been registered as “specially authorised” Societies under Sub-section 5 of Section 8 of the Friendly Societies Act, 1896. This Act fixes no limitation on the liability of the members, so that every member by joining becomes personally responsible in the event of liquidation for all the debts and obligations of the Society to which he belongs. In the opinion of the Committee this unlimited liability is a wholesome condition. It creates confidence among intending depositors, secures careful discrimination on the part of the managing members in the lending out of the Banks’ moneys to borrowers, and also some assurance that the money will be used for the purpose for which it is borrowed.

4. The business, however, of the Banks so registered is, by the Statute as at present administered, confined to what may be called mere banking—that is to say, to the collecting and lending out of money; and it is felt that if power were given to the Societies to add to this business the business of co-operative trading, the members would derive much greater advantages from the Societies than they can do at present. The Committee take this view.

5. But, while expressing this view, the Committee desire to point out that Thrift and Credit Banks may, if they choose, elect to register themselves under the Industrial and Provident Societies Acts, 1893 and 1895, instead of under the Friendly Societies Act, 1896, and that by doing so they acquire the right of carrying on both a banking and a co-operative trading business. Such a registration, however, by the terms of the Statute has the effect of limiting the liability of the members, and in this respect it is not so advantageous as registration under the Friendly Societies Act.

The members of a Bank registered under the Friendly Societies Act may also, if they choose, form themselves into a separate Society, (as in fact some of them have done,) and register the



same under the Industrial and Provident Societies Acts. They so secure power as one Society to carry on banking with unlimited liability, and as another Society to carry on banking and co-operative trading with limited liability. This plan has, however, been found cumbrous and difficult to work satisfactorily.

6. In these circumstances the Committee are of opinion that the law may advantageously be amended. It can be amended either by grafting co-operative trading powers on Societies registered as "specially authorised" Societies under the Friendly Societies Act, or by grafting unlimited liability on Societies registered under the Industrial and Provident Societies Acts. After consideration, the Committee think that the former would be the better plan.

7. The Committee therefore recommend that the Banks already registered under the Friendly Societies Act, and Banks which may be registered thereunder in the future, should be empowered to carry on jointly with their banking business a co-operative trading business.

The trading of each Bank should be confined to its own members, and the accounts should be kept distinct from the accounts of its banking business.

8. The Committee further recommend that the area of each Bank's operations should be limited geographically or otherwise, so as to enable each member of the Bank to acquire a personal acquaintance with the character and requirements of the members.

9. They also recommend that the certificate of registration should be made equivalent to incorporation (as under the Industrial and Provident Societies Act, 1893), so as to enable the Banks to sue and to be sued and to hold property in their registered names.

10. Power should be given to enable groups of Thrift and Credit Banks to combine for the purpose of forming a Central Bank. The number of Banks combining for this purpose should not be less than seven. They should each be entitled to hold one or more shares in the Central Bank, and should be entitled to deposit in it their surplus funds. The Central Bank should be registered under the Companies Acts, 1862 to 1890, with limited liability. Its object should be to receive deposits, and to distribute the money by way of loan among the combining Thrift and Credit Banks according to their requirements, and generally to assist the working and development of the said Banks.

11. Thrift and Credit Banks should be empowered to deposit their surplus funds in a local Joint Stock Bank if they so desire.

12. The Committee are of opinion that means should be adopted to secure a stricter observance of the requirements of the Act of Parliament with reference to the audit of the accounts of Thrift and Credit Banks.

13. The Committee after consideration of the whole subject have formed a clear opinion that Thrift and Credit Banks constituted on the foregoing lines will be of great service to the classes whose wants they are intended to meet, and they therefore suggest that the matter should receive the favourable attention of the Legislature.

14. The Committee finally recommend that a new Bill should be introduced incorporating alterations in the law in accordance with the foregoing suggestions. They do not therefore think it desirable to proceed with the present Bill.

The Committee have directed the Minutes of Proceedings to be laid before your Lordships."

The Draft Report is read, and *agreed to*, without Amendment.

*Ordered*, That the Lord in the Chair do make the Report to the House.

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LORDS PRESENT :

Earl of SHAPTESBURY.  
Earl of CROMER.  
Lord HERSHELL.

Lord WELBY.  
Lord NORTHCOTE.  
Lord MERSEY.

THE LORD MERSEY IN THE CHAIR.

MR. H. W. WOLFF, is called in; and Examined as follows.

*Chairman.*

1. I think we should be glad to hear from you why you say these banks are required. Some of us have had the advantage of reading your book upon the subject, and I am one of them, so that we have a general idea of the advantages of these banks, but we want—I think I do at all events—to know why this Act is required. I see you call it “An Act to facilitate the formation of Thrift and Credit Banks.” You are the author of this Bill, are you not? You are responsible for the drafting of this Bill very much?—Yes, I am.

2. I observe that you begin by describing it as “an Act to facilitate the formation of Thrift and Credit Banks” ?—Yes.

3. Therefore, we may assume that there is already legislation providing for the creation of such banks, and that this Bill is intended merely to facilitate that legislation?—That is so.

4. I should like you to tell us in your own way what are the additional facilities which this Bill is designed to provide, and why they are required?—I will tell you with pleasure. There are three points that we want that we cannot get under the present legislation. We have had to strain the Friendly Societies Act considerably. We have done so under the advice of Sir Edward Brabrook, who was at that time Chief Registrar. I was rather in doubt under what Act to proceed when I first pleaded the cause of these banks in 1893. Sir Edward Brabrook was good enough to help me, and to suggest that, since I had explained to him that for this one kind of banks (it does not apply to all banks)—that is to say, rural banks—we want unlimited liability (with regard to which members can limit themselves, so that there is nothing dangerous about it)—we should proceed under the Friendly Societies Act, obtaining from the Treasury recognition of the societies as specially authorised societies. We have therefore got power to form unlimited liability societies since 1894. Then, in 1898 Sir Horace Plunkett's Bill, or Act, as it is now—the Societies Borrowing Powers Act—really put the seal of legislation upon it. I do not think that can be taken away from us now. But there are three things we want. Under the Friendly Societies Act we are not incorporated societies, so we have to act through trustees. That is

(0.7.)

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*Chairman—continued.*

very cumbersome. We cannot sue or be sued. There has been no occasion for that yet, but it may arise; and trustees have to take charge of the money. It is rather a cumbersome proceeding. Now in 1875 Sir Stafford Northcote, being then Chancellor of the Exchequer, brought in a Bill, an omnibus Bill, to review and consolidate the legislation on friendly societies, but it did not pass. But this one provision was particularly commended in the next year by Sir Edward Brabrook—that is, that friendly societies should have the power to become incorporated societies. Elsewhere they have got it under the Act No. 10, 1904, the Indian Act; they become incorporated societies *ipso facto*.

5. You talk about Acts of Parliament as if I carried the whole series of Acts in my head; I never heard of this Act?—This Bill of Sir Stafford Northcote's did not pass because it was too cumbersome a thing; but the point, as I say, of allowing friendly societies to become incorporated societies was particularly approved by Sir Edward Brabrook the next year in a Paper which he read, and remarks he made before the Royal Statistical Society. We have had recent legislation on banks of the same sort. In 1904, while Lord Curzon was Viceroy in India, they passed an Act drawn by Sir Thomas Raleigh, authorising the formation of co-operative societies generally, and more particularly of credit banks of two kinds—the kinds I call share banks and unlimited liability banks, one based upon shares and the other based upon unlimited liability. One is intended chiefly for industrial centres, and the other mainly for rural, or in fact only for rural districts. Under the Act which was passed then in 1904 the incorporated societies registering under this Act become incorporated societies *ipso facto*. One of my arguments is that if the Indians, the ragâts, can be granted that power, certainly people in England ought to be granted it. On Saturday I received a draft Bill from Cyprus; they are proceeding with legislation upon the same point there, and there they make them incorporated societies *ipso facto*, provided that they are approved by the Chief Registrar.

6. What is the particular advantage of incorporation?—They can dispense with trustees.

7. Is

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Mr. WOLFF.

[Continued.]

*Chairman—continued.*

7. Is that the only advantage?—Well, I believe so; I speak under reserve, but the main point is that they can dispense with trustees; the committee takes charge of the money, and the society can sue and be sued, which they cannot now; they have to act through trustees. That is one point. The next point is, that under the Friendly Societies Act we cannot form central banks; we want to form central banks to give strength to the system.

8. You want to form a central bank?—A central bank; we want to give the local societies power to unite for the formation of a central bank, in which to deposit their surplus money, and from which, in case of need, to borrow money. As the Bank of England acts for the bankers in this country, so the central bank is to act for the local banks. They have got them everywhere abroad, wherever they have these banks, and they find them a source of great strength—for instance when they want to form a new society where there is great poverty, but where they find that there is sufficient security, I have been through all these, or most of these central banks, and they have explained the *modus procedendi* to me. If they find they have sufficient security they can advance the money. The difficult point with these rural banks is the first finding of the money. Once they have got a central bank, when there is a new bank forming, if it provides sufficient security—without which, of course, it should not have any credit at all; but this is a security that the outside market does not understand and the central bank does not understand it—the central bank would advance the money.

9. Where does a central bank get its money from?—They can form it wherever they please.

10. Where does a central bank get its money from?—It gets its money from the local banks; it is in a very much better position to borrow. In India they form central societies, which are not quite correct in form, but they find very much greater facility in borrowing money. Then they get large deposits. The central bank of the German societies, which number more than 4,000, last month had about four million sterling of deposits from the societies.

11. Does your draft Bill provide for the formation of central banks?—Yes.

12. Which is the section?—Section 4 (1) and (2). I want to say something upon that point.

13. I see that, but where is the provision for the formation of a central bank?—“A thrift and credit bank may, if the rules of the society so permit, borrow money from any County Council, and also borrow money from or keep money on deposit with any central institution.” That is, the central bank.

14. But where is the provision for the formation of it?—“Being a company registered under the Companies Acts, 1862 to 1900, with limited liability, or a society registered under the Industrial and Provident Societies Act, 1893, having for its object the creation of funds to be lent out to thrift and credit banks, and having a board of management elected”——

15. This section appears to me to pre-suppose

*Chairman—continued.*

an already existing central bank?—That was not intended.

16. Where is there any provision in this statute as to the formation of such a bank?—I have read it to mean that they can form it.

17. I do not think myself that there is any provision in this Bill for the formation of a central bank; a central bank is referred to as a thing which may be already in existence?—That could be remedied easily.

18. No doubt it could be amended?—That is the draughtsman's fault.

19. I thought you were the draughtsman?—I am not the draughtsman; I have instructed the draughtsman.

20. It might possibly be the fault of your instructions?—No, I was bound by the draughtsman's knowledge of law; I am not a lawyer. I could only give him the points; so that that might easily be remedied. I would only say this, that the Chief Registrar has tried to get over the difficulty by allowing certain societies to invest any money of theirs—which is not really money of theirs, but deposit money of other peoples—in any society registered under the Industrial and Provident Societies Act.

21. That is so?—I am told that is not good law.

22. Who has told you that it is not good law?—I cannot tell you that; I am afraid I am not at liberty to say, but there were several counsel told me that. I will tell you why. The Friendly Societies Act gives power to any friendly society to invest with any society registered under the Friendly Societies Act, but the Industrial and Provident Societies Act is a totally different thing.

23. Have you seen this (*handing a small pamphlet to the witness, containing the rules of a credit society*)?—Yes, I have seen that.

24. The members of the Committee ought to have this?—To some extent I have revised that, because it was bad. I look upon it as a very great danger to give friendly societies, even if it is legal, the power to invest in any industrial provident society.

25. Will you tell me why?—Because many of them are speculative societies, and one cardinal rule in the management of these banks is never to take any risk—never to do anything which involves risk. The co-operative societies, societies formed under the Industrial and Provident Societies Act, very often go to pot. These people are dealing with deposit money, of which they ought to take specially good care; so I have hedged this in, and I have said, “to be lent out to thrift and credit banks, and having a board of management elected, wholly or in part, by the bank, or by the Bank jointly with other similar banks”; so that they have a voice in the management, and the money will be under their control, which it will not be if a specially authorised society takes it away from an industrial and provident society, and puts it in there. Then it will be under that society's control. We have had lots of co-operative societies go smash. The friendly society must not engage in any business

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Mr. WOLFF.

[Continued.]

*Chairman—continued.*

business or trade; the industrial provident society may.

26. Stopping for a moment there, a specially authorised society under the Friendly Societies Act can carry on the business of banking?—That is straining the Act.

27. Never mind whether it is straining the Act or not; it is done, is it not?—It is done.

28. And, therefore, so far as the formation of a bank goes, it can be formed under the Friendly Societies Act?—Yes.

29. Just let me read a few of the provisions of this Act?—That is quite right.

30. Banking can also be carried on by a society formed under the Industrial Act?—So it can.

31. The main object of the Friendly Societies Act is to form societies to provide assistance to the members in times of sickness and at death, but the Act provides that, with the sanction of the Treasury, societies may be formed which are not friendly societies, but which, nevertheless, come within the meaning of the Act, and the objects of which may be different from providing money in sickness and at death. There is a book published called the "Guide Book of the Friendly Societies' Registry" (it is published by the Government), which tabulates in a convenient way all the different provisions of this Act, and I am reading from this book at page 113. This book states the effect of the Act in this way: "Specially authorised societies are registered for any purpose which the Treasury may authorise as a purpose to which the powers and facilities of the Friendly Societies Act ought to be extended. The peculiar characteristic of the class is that the Treasury may limit the application of the Act as respects specially authorised societies, to such of its provisions as may be specified in the special authority. Apart from such limitations, specially authorised societies are subject to all the provisions of the Friendly Societies Act." Then it goes on to state: "Special authorities, open to all societies which may avail themselves of them, have been granted for the following purposes"; and there are a number of purposes mentioned. The first is: "To create funds by monthly or other subscriptions, to be lent out to or invested for the members of a society, or for their benefit, pursuant to the Friendly Societies Act, 1896." It is very like the provisions of this Bill?—Those are Sir Edward Brabrook's words, and they are taken from the rules he sanctioned in 1894, because this was written afterwards.

32. I think that is right. The provision I have just read was made by the Treasury in April, 1903. In March, 1877, the Treasury authorised the creation of the specially authorised societies, "to promote thrift among the labouring classes, by affording them the opportunity of depositing their savings and receiving interest on the same"; and then on the 1st June, 1882, they authorised "the receipt of the funds of friendly societies and branches, and the investment of the same for their benefit; but the important thing is the

(0.7.)

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*Chairman—continued.*

one of 1903, which you say was Sir Edward Brabrook's?—Yes.

33. Societies "to create funds by monthly or other subscriptions to be lent out to or invested for the members of a society." Then: "The special authority which has been most largely used hitherto has been the first-named in the list." That is the authority for the creation of banks?—Yes.

34. "Under it a large number of loan societies have been registered in England and Ireland." Then the rules of such societies provide that the loans to any one man shall never exceed £50; and I think they also provide that no member shall deposit in the bank more than £200?—I am not quite sure about that, but I believe it is so—that is so in the co-operative Acts.

35. And then there are other provisions of that kind. Now that is what can be done under the Friendly Societies Act; but there is more than that. Here is the form of rules of such a bank which has been already formed, and it provides, I see, "The object of the society shall be to create funds by monthly or other contributions to be lent out to or invested for its members, and for their benefit pursuant to the Friendly Societies Act, 1896, and to the special authority of the 23rd April, 1903"; that is the one I have just read?—Those are taken from my original rules; those are Sir Edward Brabrook's words.

36. You know these?—Yes, I know these; I am a member of the committee.

37. Then the rules provide the following powers:—"The society may receive deposits or borrow money at interest from persons other than members subject to the provisions of the Societies' Borrowing Powers Act, 1898?—That is so.

38. Which I do not think we need trouble with at present?—We had not power before.

39. No, but you have now?—Yes, we have now.

40. Now that Act, the Societies' Borrowing Powers Act, 1898, provides that no part of the funds shall be divided by way of bonus or dividend?—Yes.

41. They provide also that all money lent to members shall be applied to such purposes as the society may approve?—That is so.

42. These are the provisions in your Bill?—Yes.

43. Then they provide that all moneys payable by a member to the society shall be deemed to be a debt due from such member, and shall be recoverable as such in the County Court?—Yes.

44. Your Bill provides that?—I am not quite sure, but everyone is at one on that point.

45. "All sums of money payable by a member or a past member to a thrift and credit bank shall be deemed to be a debt due from the member to the society, and shall be recoverable as such in the County Court"?—Yes.

46. Then these *pro forma* rules provide that every member shall be jointly and severally liable for all debts incurred by the society, and for any loan which a member or his sureties may fail to pay?—Yes.

47. Now

financial difficulties of the Government of India.

13. The fall in the relative value of silver has most injuriously affected the financial position of the Government of India. Taking the average price of silver at  $60\frac{1}{2}d.$  per standard ounce in former times, and its present price at  $42d.$  per ounce, the increase in the number of rupees required to meet a fixed gold obligation is very nearly 45 per cent. In other words, a fixed charge which could formerly have been met by the expenditure of 1,000,000 of rupees, now requires the expenditure of no less than 1,450,000 rupees.

This change not merely imposes a burden on the Indian finances at the present time, but the uncertainty as regards the future exercises a paralysing influence. If no remedy can be devised, the only safe course will be for the Indian Government to avoid as far as possible contracting any new obligations payable in gold, and for India to depend more and more upon her own resources of all kinds and those of other silver-using countries, and even this policy may, in the case of the occurrence of events which are not beyond the range of probability, fail to avert political and economic dangers of a very serious character.

responsibility of Great Britain for these difficulties.

14. Nor can Great Britain divest herself of her responsibility in this matter by allowing the Indian Government to act as it may think best. The Government of India is only another name for the agency whereby the administration of the Indian Empire is carried on by this country; the gold obligations which now constitute the difficulty of the Indian Government were incurred with the knowledge and approval of the English Government, and are very largely due to the connexion between the two countries; the original impulse towards the monometallic gold standard, from which have sprung the existing currency difficulties, was given by England in 1816; it was strengthened by her suggestion, in connexion with the International Monetary Conference of 1867, that France should adopt the single gold standard; and the interests of England and India are now so intimately connected that they cannot be separated in a question of this kind.

If Great Britain cannot, with reference to her own position and interests, take such steps as will relieve India from the existing currency difficulties, justice requires that in deciding on any measure which India may be in a position to adopt in connexion with the settlement of the question the interests of India alone should be considered, but this course will neither relieve Great Britain from her responsibility in the matter, nor protect her from the consequences, direct and indirect, of further currency changes, or of changes in policy on the part of the Indian Government rendered necessary by existing financial difficulties.

*Effect of the Alteration in the Relative Value of Gold and Silver on Prices measured in Gold.*

Prices of articles of international commerce must vary in exact accordance with the variation in the relative value of gold and silver. No such immediate and exact variation need necessarily take place in the case of wages or of prices of articles not entering into the international trade between gold-using and silver-using countries.

15. Gold and silver having altered in relative value, it follows that there must be a corresponding alteration in the actual gold and silver prices of articles interchanged between countries using these metals as standards of value, subject of course to such modifications as may have been caused by alterations in the cost of transport of different commodities between the two groups of countries.

So much is beyond question, but theory does not require us to believe that there is necessarily an *immediate* and corresponding alteration in the prices of articles not so interchanged, or in wages paid in gold and silver countries, and as experience does not show that any such change takes place at once, and to the full extent, it should not be assumed that this is the case.

The question, so far as concerns countries using the gold standard, which we must now attempt to decide, is this:—

How far have the alterations in the relative value of gold and silver been attended with a change in gold prices and wages in the direction of a fall? Would any of this fall have been prevented if no currency changes had been made, and would such prevention have been a gain or the reverse?

The fall in the gold price of silver has been accompanied with a fall in the gold prices, and not with a

16. The prices to which we should look in the first instance in dealing with this problem are those of the articles which are interchanged between the gold and silver countries, and they are practically all the main articles of international trade. It is in the prices of these articles that the full effect of the alteration in the relative value of gold and silver must disclose itself at once, and it is through them that a connexion is established between the scales of wages, and of prices of articles locally produced and consumed, in different countries.

As to the course of gold and silver prices of these articles in recent years there is no room for doubt. The alteration in prices corresponding with the altered value of gold and silver has affected gold prices and not silver prices; the latter prices appear to have fallen rather than risen. The facts are so obvious and have been so fully set forth as to make it unnecessary to repeat the statistics which prove them.

rise in the silver prices, of articles of the international trade.

17. As regards articles of minor importance, locally produced and consumed, and which do not to any considerable extent enter into the international trade of the world, our information is much less complete.

On the whole there would appear to be a tendency to a fall in such prices in this country. There is very little evidence as to the prices of similar articles in countries using the silver standard, but such evidence as is forthcoming does not show any marked tendency towards a rise in prices.

18. Statistics of wages are difficult to collect and combine, and those which exist are very defective. In this country there is distinct evidence of a fall in wages, but the fall has not affected all industries in the same proportion. It has been said that in some countries using the gold standard there has been no fall in wages, but, so far as the evidence before the Commission goes, there is no proof either on one side or the other. In India, which may be taken as the best example of a silver-using country, there would appear to be a decided tendency towards a rise in the wages of some kinds of skilled labour, but not much change in the wages of unskilled labour, and the increase in railways and mills in that country would naturally be attended with an increased demand for skilled labour.

Decided tendency to a fall in gold wages, and no very marked tendency to a rise in silver wages.

*Alleged Causes of the General Fall in Gold Prices and of the Divergence in the Relative Value of Gold and Silver.*

19. I have stated briefly the facts (very imperfect), so far as information is available, regarding the course of wages and prices as measured in gold and silver respectively in recent years, and it will now be convenient to notice some of the explanations that have been given of the influences which have caused gold prices to fall and gold and silver to diverge in relative value, and to consider how far these explanations are consistent with ascertained facts.

20. Before doing so I wish to call attention to certain very common errors and prepossessions which are liable to influence, unconsciously, the reasoning of those who deal with questions connected with the currency.

It should be borne in mind in the first place that there never was, and never can be, such a thing as a fixed and invariable standard of value which will measure any quantity of wealth in the same way and with the same accuracy as the yard measure will measure length; and in the next place that the pound sterling is a certain weight of a metal called gold, and that gold is a commodity, and liable to vary in value according to the law of supply and demand, like all other commodities.

A fixed and invariable standard of value an impossibility.

It should also be recollected that every one using any commodity as the standard of value treats it in practice as absolutely fixed in value, and measures all variations in the relative value of other commodities by means of it, and that consequently the impression gradually grows up that the standard of value is in reality as invariable as it seems to be. That no standard of value is, in this sense, invariable, is easily seen by contrasting the fluctuations in the relative value of any two articles used independently as standards of value. The alteration in the relative value of the gold and silver standards in recent years is a case in point.

Prepossession as to the stability of the standard which we are in the habit of using.

Illustrations of the unsoundness of the argument that the increased supply of silver to India has depreciated the standard of that country by 25 per cent.

21. A jury of Englishmen, drawn from the ranks of the Indian s. and in 1885 business, would almost irresistibly be led to the conclusion, compared with the years 1858, perfectly stable in value in recent years, and that silver had of silver was one-third less would be able to give plausible reasons for holding that opinion, actually ceased for a time, and A jury of Chinamen, or natives of India, would have a copy of the English figures of the other direction, and would have just as little hesitation in stating, but I do not think it can falling within their daily experience as practical matter, to England has materially fallen remained steady in value, and that the change was in any difficulty in asserting equally plausible reasons for

It is this prepossession which leads so many men to supply of, the precious metals, show matters to hold opinions which involve the assumption that gold have been of greater magnitude for, gold have really no effect on the value of the silver, an attempt has been made to show

Third theory, that the economies of gold have



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Mr. WOLFF.

[Continued.]

*Chairman—continued.*

47. Now that is unlimited liability?—Yes; really it is joint liability up to a certain point.

48. There is no limit?—Yes, it is in the rules. In the first place, the Act limits every loan to £50; you cannot go beyond that.

49. But it does not limit the liability of members to make good any deficiency?—No; that is so.

50. Therefore, it is unlimited liability?—Yes.

51. And, therefore, one of the objects you have in this Bill is open by law at present to anybody forming a bank under the Friendly Societies Act?—We have got that.

52. I do not know why you want it again?—We do not want unlimited liability over again; we want to form the central banks with limited liability; it would be most dangerous to have a central bank with unlimited liability. That is why we want to go under the other Acts.

53. There is no provision in this Bill for the formation of a central bank at all?—We have dealt with that; we must amend that.

54. Then it provides that “no capital shall be raised by borrowing without the authority of a general meeting of the members.” And then it provides that “the general meeting shall elect three trustees”?—Quite so.

55. You do not like that; you want incorporation?—I should like that.

56. I do not quite know why?—There is one point you spoke about with regard to limited and unlimited; I do not know whether it is there; I think it is. Certainly it ought to be in every good set of rules that the members are every year at the annual meeting to fix the maximum amount to which the society may lend to any particular member and the members altogether.

57. These rules already fix the maximum; you cannot lend more than £50?—No; it is the Act which does that.

58. And these rules do it also?—Quite so; the rules simply recite that, but the rules ought to include a clause which says that members are every year to fix the maximum amount to which the committee can go in lending to any one member, and in lending altogether, so that they shall not go beyond £50; it may go to £15 or £20.

59. That may be, but we are now on the question of trustees. The general meeting shall elect three trustees; these trustees shall be entitled to invest money belonging to the society in different ways—for instance, in the Post Office Savings Bank, in the Public Funds, in the Securities of India, and so on—and then in the securities of any society registered under the Industrial and Provident Societies Act, 1893?—That is bad; that is the very point I have raised objection to.

60. You object to it “having for its object the creation of funds to be lent out to thrift and credit banks, and having a board of management elected wholly or in part” by the society. Then, “Loans when approved by the committee shall be granted to members. Loans granted for a period exceeding one year shall be made repayable by regular instalments, nor shall any loan be granted to a member which

*Chairman—continued.*

shall make the total sum owing from him exceed £50. The society may receive deposits from members and persons who are not members”?—That is so.

61. That you wish too?—That is permitted in the Societies' Provident Borrowing Powers Act.

62. “Which shall be withdrawn on such notice as may be agreed upon,” and then “no profit, bonus or dividend shall be divided.” That I think is the substance of the Act?—I do not approve of those rules; they vary from my original rules, but they have been adapted; several points in them I distinctly disapprove of, and that is one of them, that you can invest in such societies; because an industrial and provident society is a trading society which runs ventures. The other day the Co-operative Bank in Edinburgh lost £500 of its reserve which it lent to a farming society. The farming society came to grief. You cannot deal with borrowed money in that way, and it is very imprudent if you deal with your own money in that way. We are dealing with other people's money, because one of our cardinal rules is, that we form our little banks without shares, only with unlimited liability. We may have small shares, but they ought to be very small in order not to exclude the poorest. We form them without shares.

63. Then I am afraid I have not grasped your scheme; the banks you call thrift and credit banks are to have unlimited liability?—I do not know how to put it; the societies are generally known as rural credit societies.

64. They are to have unlimited liability?—Yes.

*Earl of Cromer.*

65. The central bank is not to have it?—The central bank is to have strictly limited liability.

*Chairman.*

66. Do let me follow it; the thrift and credit banks that your Bill is to authorise are to be unlimited?—I beg your pardon, but this Bill does not authorise those banks; it only gives the banks which are already existing, or which have already the power to exist, additional powers.

67. Do the banks which already exist, exist under these rules (*pointing to a pamphlet*)?—There are a very few of those—only about a dozen.

68. Under what rules do the Irish banks exist?—Under the Irish Act—the Irish rules, I mean.

69. Then this is another Act of Parliament I have to hear about. What is the Irish Act?—Not the Irish Act; I corrected myself—the Irish Rules; it is the same Act. The rules are very similar to my rules.

70. Have you got a copy of the rules?—I have not brought any here.

71. Can we get a copy of the rules?—Certainly.

*Earl of Shaftesbury.*

72. If I understand it, these societies are created under the Friendly Societies Act, and they make their own rules; they are forwarded to

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[Continued.]

Earl of Shaftesbury—continued.

to the Registrar and approved, so that they do not form them under those rules but under their own rules?—These rules have been adopted by the Agricultural Organisation Society. In November, 1893, we started the Agricultural Banking Association, of which I was an original member. Then we fell out over several points in 1894; then Mr. Yerburch formed several other societies, co-operative banking associations, and so on, and then they were amalgamated with the Agricultural Organisation Society, of which I am an original member of the committee, and I am still a member of the committee, but I have not joined the banks sub-committee because I disapprove of certain points in their rules. I say they do not quite understand the thing; they have not grasped the idea; they have grasped the point of the money but not the point of the security, so I dissociate myself from the major portion of that. However, for the sake of peace, I was asked to consider the rules together with Captain Sutton Nelthorpe, who takes a keen interest in the formation of these banks—but they have only got about a dozen. Then I struck out the most objectionable clauses, but there is still a good deal in them which I do not approve of. I issued the rules in 1894 which were used by the Irish societies; there are nearly 300 Irish societies now, and they have altered them a little for local purposes, but I am altogether at one with the Irish societies. The Irish societies are not perfect, but they are proceeding on the right principle, and are doing very good work.

Chairman.

73. Do you know this book (*showing the witness a pamphlet dealing with co-operative credit banks*)?—Yes, that is my own.

74. I have been reading this book; these are rules which you have drafted yourself?—Yes, these are rules which I have recently re-drafted. I issued the first in 1894.

75. Is there anything in these rules which would not be sanctioned by the Treasury?—No; on the contrary. I submitted them to the Chief Registrar before I had them published.

76. And banks can be formed, therefore, at present with these rules which you yourself have drafted?—Yes.

77. Let us see what they are: "Rules of the Co-operative People's Bank, Limited"?—That is the other one. There are two kinds of banks formed. We form one kind under the Industrial and Provident Societies Act with limited liability, and the other under the Friendly Societies Act, with unlimited liability.

78. There are first of all the co-operative people's banks, and there are the village banks?—Yes.

79. Let us take the co-operative people's banks?—They are under the Industrial and Provident Societies Act, and our Bill does not concern them. They have got all that they want.

80. Why does it not concern them?—Because they are formed with limited liability.

81. Then it is at all events clear that you

Chairman—continued.

want to have unlimited liability?—Certainly, for the village banks.

82. For the banks authorised under this Bill?—Yes.

83. But you want to have limited liability in connection with what you call the central bank?—Certainly.

84. This Bill, you know, does not say anything about how the central bank is to be formed; I know nothing about it?—So you have told me, and I have submitted to your ruling. That is the draughtsman's oversight, and of course I was bound to accept the draughtsman's law. I could only give him the points I wanted, and in that case evidently he has omitted to state that such a bank may be formed.

85. To provide that it shall be formed, and to give power to form it?—To provide that it can be formed.

86. I do not understand myself why the bank you want, subject to the question about liability, cannot be formed under the Industrial and Provident Societies Act?—Because they want unlimited liability.

87. Is that the only reason?—That is the only reason. I have discussed it several times with Sir Edward Brabrook, and he thought there was no difficulty whatever from the draughtsman's point of view (although I do not think Parliament would agree to it) in altering the Industrial and Provident Societies Act to the effect of giving power to certain societies to be formed with unlimited liability, just as you form societies limited by shares and limited by guarantee. I thought in the same way that you could form these societies, and he said: "Certainly you could, but I do not think that would pass Parliament."

88. Why not?—Because there is a great objection, and a very justifiable objection, to unlimited liability. Where unlimited liability is not particularly safeguarded, it is decidedly dangerous, but that does not apply to very small districts, such as we provide for. Our ideal district is the parish where everyone knows his neighbour, but under other circumstances I consider that unlimited liability is full of danger, and that is why I do not want the central bank to have unlimited liability. They have tried them abroad, and they have proved to be a mistake.

Earl of Cromer.

89. Do you lay down specifically anywhere that the area is to be a parish?—I say that the parish is the ideal, but we are quite ready to submit that to the discretion of the Chief Registrar. In some instances we cannot limit it strictly to a parish; we may have to take in outliers from other parishes whom we can easily take in; there might even be two small parishes included, but it ought to be a small district.

Lord Welby.

90. You say here it is to "carry on business only within such area as may be specified in the rules"?—Yes.

91. Therefore

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[Continued.]

Lord Welby—continued.

91. Therefore, the rules might restrict or extend the area, quite apart from the parish?—Yes, but that is subject to the Chief Registrar's approval. I told Sir George Murray that we would give him any discretion that was wanted in that respect.

Earl of Shaftesbury.

92. But you would be quite willing to see the area specified in the Act of Parliament; I mean, you think it quite feasible that the word "parish" should be inserted into the Act of Parliament?—I think it would be very difficult, and I have heard many objections raised to that, both in Ireland and England. Captain Nelthorpe particularly objected to it, and so others have done. We have districts in which we must take in outliers from adjoining parishes. I know one bank abroad where they have five different parishes, or portions of five different parishes, but they are so close together that they can easily be managed. As a rule the parish is an ideal district.

Chairman.

93. At all events, the area ought not to be so large that the members of the committee could not know the circumstances of the people they were dealing with?—It is not only the members of the committee, but the area ought to be so small that practically everyone knows the other.

94. That is what I rather mean; so that the management of the bank, at all events, would be conversant with the circumstances of the people who come to deal with the bank?—Yes; otherwise we could not have unlimited liability.

95. One word upon the question of the trustees. You desire to have these banks incorporated?—Yes.

96. And that, as far as I can make out, requires legislation?—Yes.

97. But what is the great advantage of the incorporation? You say that the trustees cannot sue, but let us see whether that is so or not. Are you satisfied that the trustees cannot sue?—Well, I think it is very cumbrous.

98. There is a special provision, I think, enabling them to sue?—You allow them in India without trustees.

99. Just listen. The trustees are appointed to begin with—elected?—The trustees are appointed in the rules to be elected because the Act provides that there must be trustees.

100. Now, once they are elected *ipso facto* all the property of the society vests in them?—That is so.

101. If any one of them dies or becomes incapable of acting, another is elected in his place?—Yes.

102. And *ipso facto* the property vests in the three new trustees. There is no need to have a conveyance of the property to the new trustee; by law all the property at once vests in him. Is not that so?—Yes, that is so.

103. And the trustees can sue and be sued; what is the advantage of incorporation?—The advantage of incorporation is that the members can act for themselves.

Chairman—continued.

104. But the trustees are trustees for the society?—But we have to appoint so many people in a small parish that we might have difficulty in manning the committees. We multiply officers quite needlessly, and I think it takes away from the independence and manhood of the society. In the London Library, when we revised the rules in 1892, we particularly put into the rules that the committee should have power to deal with matters, and that the trustees should deal with the money, just as the committee decided. We took the discretion away from the trustees in order to be more independent. In India they have got no trustees. They have also just formed a bank in Cairo, and they have no trustees there. In Cyprus also they are not thinking of appointing trustees. It stands in the way; it is cumbrous.

Earl Cromer.

105. There is no co-operative bank in Cairo?—Yes, there is one formed.

106. Under whose auspices?—Omar Bay Loutfi.

107. I am not at all condemning the co-operative system, but I think the tendency in Cairo is to go towards co-operation?—They have drafted several Bills.

108. They were not formed originally in Cairo?—That is a different thing altogether; that is an urban bank, an industrial bank formed with £3,142.

109. Let me explain to you; they were not formed originally in Egypt, because it was held by everybody on the spot with the best local knowledge, that nothing would induce the natives to co-operate on account of their great distrust among each other. Therefore an agricultural bank was formed, which began originally by the Government lending £10,000, and that has now grown to £10,000,000; but that is quite a different system to this, and therefore it is not very useful to continue the discussion about it?—I was referring to this bank which Loutfi has recently formed, which has no trustees.

Chairman.

110. You have called in aid the Raiffeisen banks, the Cyprus banks, the Egyptian banks, and Indian banks, but I think, on the whole, it will be better if we stick to England and Ireland?—But, my Lord, I simply noted these things. Raiffeisen's is the model bank, and we have formed an imitation of that, and we are adapting it to our circumstances. The other banks are simply called in because they have got powers that we are asking for now. I think it is rather *infra digintate*, that the Britishers should be denied powers which are given to fellaheen and coolies. There is one point we have not touched upon yet which is very essential.

111. I am going to leave you in a moment, and to ask the other members of the Committee if they desire to put questions to you; but before leaving you I want to draw attention to the Industrial and Provident Societies Act, under which it occurs to me that perhaps all, or nearly all, the advantages that you are seeking to get by your Bill can be obtained. For instance,

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*Chairman—continued.*

instance, incorporation can be obtained under this Act, I think?—Yes.

112. Unlimited liability apparently cannot?—Unlimited liability is quite impossible.

113. I think you are right there?—That is the point.

114. It may be the point, but it can be obtained under the Friendly Societies Act?—That is so.

115. The Industrial and Provident Societies Act is an Act for the registration of co-operative societies?—Yes.

116. For all sorts of businesses?—Yes.

117. Amongst others, banking?—Yes.

118. They also include the business of banking, but societies carrying on such business are subject to special provisions. Then these societies are by registration made corporations?—Yes.

119. That is satisfactory?—Yes; but for unlimited liability that would suit us down to the ground.

120. The Act would suit you entirely?—Entirely, but for unlimited liability.

121. Then am I right in saying that if this Act of Parliament which I am dealing with at present contained a provision that the liability might be unlimited, the Act then would meet all your requirements?—So it would.

122. Why on earth then do you want this long Act of yours?—Because I hold that it would be hopeless to put it before the House of Commons and ask them for unlimited liability.

123. Do you hope, by a side-wind in this Bill, to get what you could not get by a very simple Bill?—We shall get what we want if we get the Act.

124. I do not know whether I quite appreciate what you say. Do you mean to say that if a clause were introduced into the Act of Parliament to which I am now referring, providing for unlimited liability, this Act of Parliament, the Industrial and Provident Societies Act, would afford you all the facilities you want?—I think it would.

*Earl of Shaftesbury.*

125. Excepting one point, the trading powers?—We should have that.

*Chairman.*

126. It occurs to me that you are right; and if you are right, I have considerable doubt as to the wisdom of running after this hare. I should like the members of the Committee, if they would, to look at this book, which contains the two Acts, or the provisions of the two Acts. It is published by the Government, and I have ordered copies?—My Lord, I should think there would be very grave objections to granting unlimited liability, except under very proper safeguards; the safeguards would have to be very well considered, but there is one point, a very essential point, that we have not touched upon yet.

127. What is that?—The third point that we take powers for is that, subject to the Chief Registrar's discretion, co-operative banks of

*Chairman—continued.*

this sort should also be able to act as co-operative distributive societies—that is to say, that they should have trading powers. That is a very important matter.

128. I quite understand that. Your object is to create societies which shall carry on the business of banking, and which at the same time shall be co-operative societies in other matters?—Yes.

129. That I understand; that could be accomplished under the Industrial and Provident Societies Act?—Yes, as soon as we have got unlimited liability: but we must get unlimited liability first.

130. It all comes back to the one point, that you want some provision in the Industrial and Provident Societies Act for unlimited liability, and when you have once got it, you have got all you want?—I have discussed it with a good many people, and their opinion is that it would be hopeless, otherwise it would suit me very much better, because it would combine the two classes of co-operative societies into one movement. We should be in the co-operative movement then.

131. There is one point as to which I am not clear; there is a provision in this draft Bill of yours that these banks shall be entitled to borrow money from County Councils. I do not think there is any such provision in the Act of Parliament I have been referring to?—That is not an essential point.

132. It struck me as being a startling point?—I understand that the Local Government Board are opposed to that.

133. I should think so?—I have written to Mr. Burns to ask what are the reasons, because we can perfectly well meet them on that point.

134. At all events you do not insist upon it?—No.

*Earl of Cromer.*

135. I have not quite followed your argument as to why Parliament should object so strongly to unlimited liability if it was added to an existing Act, but should not object to it if put into your Bill. Will you explain that a little further?—We have got it in the Friendly Societies Act, and we shall say nothing about it.

136. But will you be able to pass this Bill without something being said about it?—We have got it; we do not need to say anything about unlimited liability. We have got it under the Friendly Societies Act already, and since the passing of Sir Horace Plunkett's Act, they cannot take it from us without the consent of Parliament. We do not want to say anything about it.

*Chairman.*

137. What I understand you to mean is this: that rules like this, which specially provide for unlimited liability, can be formed under the Friendly Societies Act. Rules like this on that point cannot be formed under the Industrial and Provident Societies Act.

*Earl of Shaftesbury.]* Perhaps I might be allowed to answer that question. They are formed. In this Bill, in section I, it mentions the

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the Friendly Societies Act, 1896, and every co-operative bank which now exists is formed as a specially authorised society, under the Friendly Societies Act, with an unlimited liability. They exist at the present date, and the only object of this Bill is to extend their powers.

*Witness.*] We do not want to ask for what we have got already.

Earl of Cromer.

138. I wanted to ask a few questions on an entirely different point. You think, do you not, that these banks have been a great success in other countries—in Germany, Italy, and so on?—Yes.

139. What I wanted to ask you specially for your opinion upon was whether you thought there were any special conditions in those countries where the system has been a success which applied to the full extent in this country. Have you thought over that, or whether there are such differences as to make them inapplicable?—I have thought over it, and I cannot see that there is anything which should interfere with their success here. They have been a marked success in Ireland, but of course we cannot compare Ireland with Germany, as in Ireland there is nothing to come up to the many thousands they have got in Germany or Italy, but they have been a marked success, and the people in Ireland are exceedingly well satisfied with them. I cannot see that there is anything in this country which should specially militate against their success.

140. Was not one of the great reasons which made the thing a success in Ireland the presence of the "gombeen" man—the village usurer? Was not that one of the principal reasons?—That was one of the reasons, and they have taken the shine out of the Loan Fund Society. They consider it to be a greater success than the Loan Fund Society. We have "Friends of Labour" loan societies in England which are considered very objectionable, and in Ireland they have got what I think they call loan fund societies, which are formed under a different Act but are very similar, under which they raise money by debentures which pay very good interest, and they lend money to people in the same way that our loan societies do, but they have not been considered very successful, and the Irish now say that our village banks completely outdo the old loan fund societies.

141. I have had no experience of the co-operative system myself, so that I may be asking you questions which may appear to you to be very ignorant; but what I want to know is, what has been the principal inducement in Ireland and elsewhere that has made people join these banks?—They want to get rid of the "gombeen" man.

142. I understand that these banks are to be distinctly non-profit-making institutions, are they not?—They take no profit; all the money they earn, all the surplus, goes into an indivisible reserve fund.

143. Then what is the inducement to a man to put his money into the bank at all?—He does not put any money in; he borrows money from it.

Earl of Cromer—continued.

144. Where do the deposits come from?—The friends of the movement at first find the money and after a time deposits come in; since the Government has withdrawn its aid in Ireland they have received considerable deposits.

145. What is the inducement to a man to put a deposit in unless he wants to borrow himself?—For the welfare of other people. They take deposits from non-members as well. There is a great deal of friendly support given to the movement.

146. On purely philanthropic lines?—On philanthropic lines to begin with—that is to say, the philanthropic lines of helping without giving—without giving them alms, to help them by the aid of money which it is always understood is to be strictly repaid.

147. But the man who makes a deposit and wants no money advanced to him gains nothing by his deposit?—He gets the same interest that he would get elsewhere, and he knows that his money benefits the locality.

148. He does get interest?—Yes, he does get interest on the deposits. They can afford to pay sometimes more than the Post Office Savings Bank. The Raiffeisen Central last month had got £4,000,000 sterling accumulated in deposits from members of a little over 4,000 societies, and these had borrowed 2½ millions, so that a million and a half was standing to their credit in their central bank.

149. Do you know whether the village usurer existed to a large extent in Germany as he did in Ireland?—To a terrible extent.

150. Does the village usurer exist in this country?—There are usurers in this country.

151. But not to nearly so large an extent?—They prey more on the small farmers; less on very small people.

152. We may take it therefore that the presence of the village usurer, which has been a great stimulating influence in Ireland and Germany, does not exist here?—We have got no gombeen men, but we have a good deal of usury among small farmers.

153. At what rates of interest do they borrow, as a rule?—That I do not know, but on that matter Mr. Farrow's book, "The Usurer Unmasked," would be useful. Mr. Farrow was Mr. Yerburch's private secretary, and was our original honorary secretary of the Agricultural Banks Association, and then he formed his own bank. "The Usurer Unmasked" speaks a great deal about that. But then these men want to get working capital for their holdings; that is their main object. When Raiffeisen began everything was in the usurer's possession, even their cattle; their tumbledown cottages and everything else belonged to the usurer, and Raiffeisen stepped in in order to free them from the usurer, and when they got on they found that they could do everything they required with the money for working their little farms. I have seen, for instance, a steam threshing machine with the steam engine belonging to it which had been bought through their bank without their ever putting their hands into their pockets.

154. I understand you are very strict about limiting your operations to a certain area?—Yes.

155. In-

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*Earl of Cromer—continued.*

155. In order that there may be thorough knowledge of a man's solvency, and what he intends to do with the money?—Yes.

156. That is an extremely important point?—Very.

157. Because the weak part of the whole of the Egyptian system, with which you are familiar, has been that sufficient inquiry has often not been made as to the purpose to which the loan shall be devoted, and the result has been that people have borrowed to a large extent to buy other land, which is not what is intended?—No, we limit the loan to a particular object, which has to be stated, and if the object is not adhered to the loan is called in.

158. You can do that?—Yes, at four weeks' notice, and it is on this that the late Duke of Argyle had remarked: "Your system of strict repayments and watching carefully the employment of the loans is admirable."

*Earl of Shaftesbury.*

159. When these co-operative credit societies were originally started, if you had been able to get what you consider absolutely essential to the whole principle of co-operative credit—namely, unlimited liability, under the Industrial and Provident Societies Act, then those banks would have been started under the auspices of that Act?—Certainly.

160. But the difficulty was the consent of Parliament, and therefore it was found necessary and expedient to start them under the Friendly Societies Act?—That is so.

161. Therefore they have been in existence for some years now, and working under the Friendly Societies Act?—Yes.

162. They have been hindered by certain difficulties in working which you propose to remedy in the Bill we have before us?—I do not know whether that is quite the right way of putting it. Our people are very backward here. As Sir Horace Plunkett has put it: in the case of an Irishman there is no difficulty in getting a thing into the one ear, but it often flies out at the other. The difficulty is to get it into the ear with the Englishman, but once it has got in it sticks there. I think that is a very correct description. Our people have not taken to it, and we have had no real propaganda.

163. I was speaking about difficulties in working; they have been hindered by certain restrictions which you propose to remedy in this Bill. To begin with, incorporation is one cumbersome restriction?—Yes.

164. Then there is the difficulty of having a central institution with a common Board of Management?—Yes.

165. That you propose to remedy in this Bill?—Yes.

166. Then, thirdly, there is the question of trading?—Yes.

167. You have heard complaints in Ireland with regard to the difficulties of these co-operative societies in connection with two societies being formed in the West of Ireland: Why should you provide trading powers for these societies in the Bill?—Because there is difficulty in manning the two societies; that is one point, and, of course, I only approve of coupling the two together in very small societies. Then we

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*Earl of Shaftesbury—continued.*

want to spread co-operation abroad for their benefit; they have the "gombeen" trader as benefit; they have the "gombeen" trader as well as the "gombeen" usurer. And lastly, that is form a trading society which is recognised as a co-operative society, they can get all their goods at wholesale prices from the Co-operative Wholesale Society in Manchester, which on those small dealings makes a loss, but it does that for the sake of the principle. They save about 10 per cent. on their purchases, so that if an Irish housewife invests £26 in the year in goods bought at the Store, she will have £2 12s. over at the end of the year. If you have a hundred cases like that, or if you have only fifty, you will have a considerable sum accumulated and that we may want to employ in banking or for agricultural co-operation. It is the easiest means of raising the money, but the great thing is that they are being shut out by gombeen men, and the only opposition I am told that we need apprehend is really from the representatives of the "gombeeners."

168. At any rate, the Bill provides for giving trading powers to these co-operative banks; that is quite clear, is it not?—Yes.

169. We can pursue that point when we get a man from Ireland; but the point has been raised as to whether these banks are really required in rural England. It is true that in Ireland the gombeen man exists very freely, does he not?—Yes.

*Chairman.*

170. Is the gombeen man a money-lender?—He is a usurer both ways.

*Earl of Shaftesbury.*

171. This gombeen man or usurer does not exist to any real extent in England, does he?—No, I do not think he does.

172. But would you not say that for the villager in England it would still be a great advantage to be able to borrow small loans locally?—Certainly, and also to deal with a co-operative society. We find in the Agricultural Organisation Society when we go into a new district that often what chiefly catches the imagination of the people is not the agricultural co-operation, which, of course, is our principle object, but the distributive co-operation. They want to be able to buy their goods cheap. In the Eastern Counties Society they wanted to have co-operative stores from which to buy their tea and sugar, or whatever it was.

173. We are dealing with co-operative credit banks, and the object of co-operative credit is to enable a man to find working capital?—Yes.

174. As to these small co-operative banks, my point is that they would be useful in England as well as in Ireland?—Certainly, and to the extent to which they have been given a fair chance they have proved useful. That bank of Captain Sutton Nelthorpe's is working exceedingly well. They have so much confidence in it that when I was down there in 1894, when we formed it, there was one man present (they are very intelligent people there) who said: "I have a hundred pounds in the Post Office, and I will draw it out and put it into this bank, as I am perfectly satisfied

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*Earl of Shaftesbury—continued.*

satisfied with the security," and he did. There they are exceedingly satisfied with the bank although it is all on a small scale.

175. How would a villager obtain a small loan at the present moment?—He would either have to go to a man who would give it to him as an act of philanthropy or he would have to find some usurer who would take very high interest. To this bank he could go as a matter of right; he would say, "Here is my demand, this is my security, and this is the object I want it for."

*Chairman.*

176. Yes; but it is not quite right to say that he could get the money then as a matter of right. It must be submitted to the committee?—Quite so. But if he can make out a case, the committee is bound by the rules to give it to him.

177. But the committee have to make up their minds as to whether he has made out a case?—Certainly, but if he thinks they judge wrongly, he can appeal to the general meeting.

*Earl of Cromer.*

178. They are also limited in the amount they can advance in any one year?—No, they can lend money for a great length of time.

*Chairman.*

179. That is not the point; the question was whether they were not limited in amount?—Certainly, they are limited in amount.

*Earl of Cromer.*

180. I understood you to say that they were limited in the amount they could grant to any one man, and also as regards the total amount they could advance in any one year?—Yes.

181. So that it is not strictly correct to say that a man has the right to ask and receive the money?—Subject to the presence of funds.

182. It is only within those conditions?—Subject to that, of course.

*Earl of Shaftesbury.*

183. There is only one other thing. Am I right in saying that the whole essence of these rural banks and co-operative credit societies is unlimited liability?—It is; that is one of the fundamental rules.

184. That is the fundamental rule?—The fundamental rules are: small districts, no shares and unlimited liability.

185. The Chairman would like to know what you understand by unlimited liability in this connection?—Unlimited liability is that they join in the liability of everyone in the bank for everyone else in the bank.

*Chairman.*

186. When you say everyone, whom do you include—the members?—The members, of course.

187. Nobody else?—No, nobody else.

188. No outside depositors?—No, the members.

189. Although they get their interest upon their deposits?—Depositors simply lend money;

*Chairman—continued.*

they get their interest, and they have the first claim.

190. What I should like to ask, if I may interrupt for a moment further, is this: the society owes money to outside depositors?—Yes.

191. In order to encourage outside depositors to put in their money there is this provision for unlimited liability?—That is one reason—only one.

192. It may be calculated to give them some confidence. I suppose that the people who lend money, or deposit money in these societies, want the prospect of getting it back?—Certainly.

193. And the unlimited liability is one of these prospects?—Yes, that is one reason for the unlimited liability.

194. Who are the people whose liability is unlimited? What class of people are they?—Everyone who joins; there will probably be the squire and probably a lot of poor people. There may be the parson.

195. The squire will get no advantage from this?—No, he will be doing good.

196. He would be doing good, but getting no advantage for himself, except the sentimental advantage of the consciousness of doing good?—Yes.

197. Is he to be liable for the whole debts of these concerns?—Certainly; but he is there to see that it is not abused, and he can go out at any moment he likes.

198. He is to undertake this liability without getting anything for it?—Certainly, but he goes in, and he will have the opportunity of preventing abuse in dealing with the money.

199. And the borrowers are liable?—The borrowers are liable.

200. To an unlimited extent, but their unlimited liability is not of much value?—Borrowers are unlimited in the first place as borrowers, and in the second place as members.

201. But I say their liability is unlimited?—Quite so, as members.

202. And their liability is of no value?—I will not say that at all.

203. Is it of any value, do you think?—Nobody wants to be sold up.

204. If a person has not got anything to sell up it does not matter. It comes really to this, does it not, that the unlimited liability means in effect the liability of the rich man who may from benevolent motives choose to identify himself with this society?—I think that is one of the glories of the system, because it enables him to help the people without demoralising them by gifts.

205. That is the reason for the unlimited liability?—That is one reason.

206. That is the effective meaning of your unlimited liability?—No, another object of unlimited liability is to make everybody do his duty.

207. I am speaking merely of the liability itself, and the liability of a man who cannot pay may be dismissed?—Yes.

208. The only liability which depositors are concerned with is the liability of the man who can pay?—Yes.

209. And that man under your scheme will be the benevolent man who gets nothing for the risk



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*Chairman*—continued.

risk he runs, and is the squire or a person of that kind?—Yes.

210. That is what it comes to?—Quite so.

*Earl of Cromer.*

211. That is putting the thing entirely on a philanthropic basis?—Certainly, but I think people like to see good done among their neighbours and dependents; and then he is there to look after his interests. If there were only limited liability for that man for money which he did not mind losing, he would simply plank down his money or security and go away; but we want a man to come to the committee-table, and stop there, and say: "No, I forbid that; that is a dangerous proceeding, and if you go on with that I will go out, and then you will lose my help."

*Lord Welby.*

212. The Chairman has spoken of the unlimited liability of the borrower, and I want to ask in this case who is the borrower? As I understand, when the society is formed, all people may borrow from it?—Only members may borrow.

213. And the unlimited liability, comes in because they are members?—Yes.

*Chairman.*

214. They are people who *ex hypothesi* are in need of small loans, and therefore their liability is not of much value, but the real person to be liable, as I understand, in these schemes is the benevolent rich man in the neighbourhood, who has to pledge his responsibility, and also, of course, to give his attention to the concern?—I will not go quite as far as that. I know plenty of banks where there is no rich man, and where there are only small people in a very moderate position, but they have all got something.

215. Then they have got something, and they must have something; otherwise, I suppose, the depositors might have to whistle for their money when they wanted it?—They have not had to do that.

216. Lord Cromer was asking you about these societies in Ireland; are they all solvent?—I am told they are.

217. Does anyone tell you they are not?—Mr. T. W. Russell says so, but he does not give particulars, although he has been asked for specific information.

218. But there are foolish people who say that they are not solvent?—There is only one man; "are" is the plural.

*Earl of Shaftesbury.*

219. Am I right in supposing that the unlimited liability has these advantages—that the joint liability enables the society to borrow cheaper?—It enables the society to borrow more readily, but, if I might be allowed to do so, I should like to speak to that point, which Lord Welby raised just now. If there were no unlimited liability, people would be careless as to whom they elected as members, but since they know that they are liable for every act of

(0.7.)

*Earl of Shaftesbury*—continued.

his they are particularly careful, and that has had a wonderful moralising effect abroad. People have been sent away because they have been ne'er-do-weels, or drunkards or illiterate. I have seen people in Italy who have learned to scrawl their name in order to be eligible for the banks, and these societies have had the same effect even as far east as Servia. Drunkenness has gone down very much in consequence of these banks; the people have been sent away, and then they have come back, having mended their ways because they had an advantage to get. If there were not unlimited liability, people would be equally careless as to whom they elected on the committee or on the council of inspection. A man in Venetia said, in his uncouth dialect, "We are like so many spies watching one another"; but they do it in a very friendly way. Professor Dobransky said, after he had been to see it on behalf of the Hungarian Government, "I have seen a world of brotherhood." They are all drawn to one another, and class divisions are got rid of. It is the unlimited liability which makes them so careful; they have no money, and therefore they must give vigilance and every kind of care, and elbow grease, and unlimited liability makes them do so. That is the main object of unlimited liability in this connection; it makes people give some substitute for money.

*Chairman.*

220. Then we may say that there are two objects—first of all to inspire confidence in the people who deposit money in the society, and secondly, to secure the very best and most careful attention from the people who are connected with the society?—Yes.

*Earl of Shaftesbury.*

221. And it is very obvious that if you do not get the squire, or the man with money, to come in and take a philanthropic view, and say: "This is required, and I will pledge my credit," there would be great difficulty in starting an institution of that sort?—Yes; they could not start at all. But, as I say, I know a good many banks which are formed without any really wealthy men joining them. There was one very good bank in Germany where a poor parson was the wealthiest man connected with it, and he could afford to plank down £25 for a share in the central bank.

*Lord Northcote.*

222. You said that in many circumstances the benevolent squire or the capitalist would have an essential voice in the management of these banks?—I think he would.

222\*. And presumably because if he were not satisfied he would go out of the concern?—That is one reason; but, of course, they would accept him as a man of greater experience probably, and greater business knowledge.

223. But supposing there were some difference of opinion between the squire and the other members of the society, and supposing the squire were to resign, I rather gather from sub-section (3) of your clause 3 that his

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[Continued

Lord Northcote—continued.

liability would continue for a period of a year after he had ceased to be a member of the society; is that so?—For everything which has happened before his retirement—not after.

224. There is no risk that they could carry on the affairs of a bank in such a way as to land this squire with unlimited liability?—No; he would only be liable for what happened with his consent.

Chairman.

225. But I understand that he has to remain liable after his retirement from the concern in respect of all the liabilities existing at the date of his retirement?—That is so.

226. He cannot get rid of his obligations or liability by merely resigning?—No; and the longer you make the period the better I am pleased. I have taken that one year from the Companies Act, but I should prefer two years. In Germany it is two years, and in France they have made it in one movement five years. In the Belgian *Unions du Crédit*, it is five years; but really he ought to be liable for what happened during his management to the end of his life. The Companies Act limits the liability to one year, and that I have copied, but I should prefer to see it two years.

227. What you mean, as I understand, is this, that at the end of two years his liability becomes extinguished altogether?—Yes, you must have some limit.

228. And during the two years his liability is limited to those debts or liabilities of the society which were incurred during his term of office?—Yes, during his membership.

Lord Northcote.

229. Although he may have protested at the time. Supposing some action to have been taken by the society to which he objects on the first opportunity; nevertheless, if he is overruled by the committee his liability will continue, although he may resign in consequence of that action?—He could resign before they have taken the action, while the thing is under discussion. If he goes out he ceases to be responsible. A barren protest is no protection; retirement is his protection.

230. Although he may really have found the greater part of the funds for this bank, yet the committee may, so long as he has not given notice of retirement, hold him responsible for action against which he protests, and although he says that he will retire in consequence of it?—I presume he would be on the committee, and that is one of the principles; Raiffeisen made it a principle that the wealthier people should always be represented on the committee.

231. Although he is on the committee, and announces that he disagrees with his colleagues' action, they can carry it by a majority over his head, and he will remain responsible for that action?—If I were he I should resign before the action was taken.

232. How does he know how the Committee will vote?—That is cutting it very fine. I think that might be guarded against. Besides, that would be a very small thing.

Chairman.

233. It might not be?—No large transactions ever come before them; they are limited in their powers.

Lord Northcote.

234. They can lend £50 to each individual member?—A £50 loan.

Chairman.

235. Supposing a dozen men come forward to borrow £50 and that they are of a class which the squire objects to, that would be £600?—Then the squire could come out and he could say very easily, "If you agree to that loan out I go."

236. But what you say is that in order to protect himself he ought to retire before they say yes?—Before they actually vote the money—yes. The transactions are so very small that one transaction more or less would not come into account. You say £50, but I do not suppose there is any bank which will go as far as £50 at present. They will go to £15 or £20.

237. I suppose in practice these loans are quite small—£10 or £15?—Yes.

Earl of Shaftesbury.

238. Even 10s.?—Yes. They would not average £15 or £20, but that would probably be the outside at present. Of course, they may grow larger.

Earl of Cromer.

239. I understand that the squire, or the philanthropist who lends his money, will be getting interest on his money like anybody else?—He has got no money in; there is no share, and there may be no dividend. They might have very small shares.

Chairman.

240. Let us have this clear: How does a man become a member? Does he not pay an entrance fee?—He becomes a member by election.

241. And he pays a small fee of 5s. or whatever it may be?—Raiffeisen would not have that, but I do not object to it at all; I think an entrance fee a very good thing, because it keeps people in the society.

242. You contemplate the condition of a small entrance fee?—It is not essential.

243. Your rules would contemplate an entrance fee?—Yes.

244. And the man is then elected or not elected as the case may be?—Yes.

245. If elected he becomes a member?—Yes.

246. He may also if he chooses, and can, become a depositor at the same time?—Yes.

247. But he need not be a depositor?—No.

248. Being a member by virtue of having been elected, and having paid 5s. or half-a-crown, or whatever it is, he becomes one of the people entitled to borrow money?—Yes.

Earl of Cromer.

249. Then the squire is not a depositor?—He need not be.

250. The money you get from the philanthropist is not in the nature of deposits?—No.

251. He

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[Continued.]

*Earl of Cromer—continued.*

251. He will get no interest on it?—He may deposit if he likes.

*Chairman.*

252. I think we must understand this. I thought you set your face against gifts?—Yes.

253. If the squire, as we will call him, or the principal man, becomes a member, you anticipate that he will also be a depositor?—No.

254. Do you not?—He may or may not.

255. Do you not anticipate that he will be a depositor?—It rests absolutely with himself.

256. If you are not going to get him as a depositor, where is the money to come from that is to be lent?

*Earl of Shaftesbury.]* If I may answer that question, the whole loan capital of the bank need not come from deposits at all, but you go to the local bank, the Joint Stock Company Bank in the town, and you show the manager the list of names on the committee, all of which are jointly and severally liable for the loans you propose to raise, and then you borrow the money. *Ipsa facto* none of the committee need put any money in it at all, and it is simply their credit they give.

*Chairman.]* Section 1 of this Act says that the object is to provide money by means of the receipt of deposits and of borrowing money at interest.

*Witness.]* Yes, it takes power to do that; "objects" is a legal word, but the Bill takes power to do it.

*Earl of Cromer.*

257. I fully understand the banking which is a purely commercial business, but where I am in a difficulty is as to where you will find a philanthropist who will give his £50 or £100 and who will give it with an unknown liability attaching to it. There is the difficulty to my mind: how do you propose to get over that?—The philanthropist will plank down his money.

258. I can understand his planking down the money, and we get that done for lots of things, but I have never known a case where a man was asked to give a hundred pounds, say, and to give a good deal of attention to a matter and then to assume an unknown liability for other people's debts?—It rests with him; if he gives his £100 he gives that on the security of all the members, including his own.

259. But that is pure philanthropy; that is not commercial?—I should not give £100; I should much rather guarantee that with a bank.

*Chairman.*

260. Lord Welby was suggesting this question: the money is borrowed from the local bank?—Yes.

261. The secretary of the society takes to the local bank a list of names and, says, "These are the members" ?—Yes.

262. And the local bank says, "Well, there is Tom, Dick and Harry, and there Mr. So-and-so the squire; we are quite willing to lend on the assumption that they are all jointly and severally liable." It comes then to this, does it

*Chairman—continued.*

not, that the money is borrowed from the bank and the squire makes himself responsible for the payment of it—that is what it comes to?—Very often it will be so.

*Earl of Cromer.*

263. It will be only the squire and one or two others who will be the sureties?—I would not say that; they all have something to lose, and they do not want to lose it. They do not want to be sold up, and they do not want to be defaulters in the view of their own class. There is a great class feeling among them. We have had poor people in Italy who have had to emigrate, sending their money back from America to the bank in order not to be defaulters, and there was nobody to compel them to do that.

*Earl of Shaftesbury.*

264. We might have this point cleared up by showing you the constitution of these banks in Ireland, where no squire at all comes into them, because there is not one to do it, and where these banks have been formed without any of these financiers on the committee?—Yes. Sir Horace Plunkett invited me over to Ireland in 1894 to explain the thing, and they adopted it. I also explained it to Colonel Deas, the Governor of the Bank of Ireland, and he said, "I should have no objection whatever to dealing with these banks," and he called in the manager of his country business, and I explained it to him, and he said the very same thing, "We should be very pleased to deal with banks of that sort."

*Earl of Cromer.*

265. I suppose you would be agreed that in principle it would be much sounder, if possible, to put them on a commercial rather than on a philanthropic basis?—You cannot do it. You have got another system you know which you put on a commercial basis, where you simply have shares and limited liability, but we are acting for people who cannot very well find the cash, with whom money is very scarce, but who can take a good deal of trouble about it.

*Chairman.*

266. You mean that where you have a member who has shares it presupposes a man who can find money out of his own pocket?—Yes.

267. And you are providing thrift and credit banks for people who have not got any money to pay down?—That is so—some of them at any rate.

268. And therefore whose liability I should think was of very little account?—There is a good deal of class feeling amongst them, and they do not like being sold up or playing false to their class-mates. Raiffeisen purposely did not allow any shares, and he would not have any entrance fees, in order that the door might be opened to the very poorest, if only he could find neighbours to vouch for his honesty. Signor Luzzatti, the present Prime Minister of Italy, has called it "the capitalisation of honesty." They have to find sureties for their loans; they are not given money without security. They have someone to answer for them.

269. These

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[Continued.]

*Chairman—continued.*

269. These expressions, "the capitalisation of honesty," are quite novel to me, but I understand what you mean?—It has answered very well abroad, and there is no reason why it should not answer here. We never had such a success before in India as now.

270. What you really mean by it is personal security; the expression "personal security" I understand; "capitalisation of honesty" sounds very well, but it does not seem to me to carry the thing any further. I would like to ask a question about this central bank, because probably what you mean is the creation of some central bank which would stand in the shoes of the local bank to which you have been referring. Is that so?—Certainly, it will eventually, within the limit of its powers.

271. Part of this scheme would seem to include the formation of a central bank?—Yes.

272. And that bank would be, of course, a bank with limited liability?—Certainly.

273. And a bank with a share capital?—Yes.

274. Would it be a bank under the Companies Acts?—It would be a bank under the Companies Acts or under the Industrial and Provident Societies Act.

275. Why should it not be under the Companies Acts?—It might.

276. Is there any reason why it should not?—It might be; that would give it greater liberty but would cost it more money.

277. Is there any reason why it should not?—No.

278. Does your scheme involve for its successful carrying out the formation of a bank under the Companies Acts as well as the formation of thrift and credit banks?—We have got thrift and credit banks. We have not got a central bank, and we want to form a central bank.

279. Your Bill does not include it, but is it intended to include the formation of a limited liability central bank, to facilitate the working of thrift and credit banks?—Yes.

*Lord Welby.*

280. I think it has been explained that with regard to the central bank, which jumps suddenly before us like a jack-in-the-box, there has been an omission, and that there ought to be a clause in the Bill enabling this central bank to be created?—Upon that I accept the Chairman's ruling, as he is a judge and I am not a lawyer at all. Our intention was to authorise the formation of a central bank.

281. These credit banks of which you want to facilitate the creation are generally small affairs?—They must be.

282. I have only just had the opportunity of reading the Bill, but under Section 2 it appears that this small society is going to have very large powers as to passing rules. Does it not seem rather singular that such powers should be given with no further check upon them? I rather gathered from something that passed between the Chairman and yourself that under the Friendly Societies Act the Treasury have a pretty large power of enlarging or restricting the powers which the friendly societies formed under the Act may have?—Yes.

283. But it appeared to me that in this case

*Lord Welby—continued.*

nobody has any check?—This is under the Friendly Societies Act, and all rules adopted have to be approved by the Chief Registrar.

284. I beg your pardon—that is exactly the point?—No rules can apply without his approval.

285. And therefore any check that there is under the Friendly Societies Act would apply to these banks?—Yes.

286. Here is a curious rule—that "it may join with other banks in appointing a committee of inspection and defraying the expenses thereof." I should have thought that it ought not to be left to the discretion of this small body as to whether it would be inspected; I should have thought the provision ought to be that there shall be a committee of inspection?—No.

287. If you will read it, it says the rules shall provide "(i) whether it may join with other banks in appointing a committee of inspection and defraying the expenses thereof"; and then Clause 5 says what shall happen if it does so choose?—Yes, you cannot force them. My great difficulty here, and in Ireland and India too (in India they are tumbling to it now), is to get them to appoint a council of inspection in the bank itself, which is quite essential. There ought not to be a local bank without a council of inspection to control the committee of management, but the inspection here meant is for the Union.

288. My point is that that ought to be mandatory?—I do not think we can force them.

289. As to these banks, with the considerable powers which they are seeking to have, I think there ought to be some provision for a committee of inspection?—From the legal point of view there is the Chief Registrar; they have to submit their accounts every year.

290. Under the Friendly Societies Act?—That is so; they have to submit their balance-sheet. It is a different kind of inspection that we are here speaking of, which is very useful indeed, only we cannot compel them to join the Union for inspection. It has worked admirably abroad, and they are trying to graft it upon the legislation in every country now.

291. There are very important provisions in Clause 5; observe what this committee is to do, what I venture to think every institution of this kind ought to be subject to: "A joint committee for the purpose of conducting periodical inspections of and making reports upon the financial position and methods of business of the appointing banks, and may confer upon that committee all powers necessary for that purpose, and may pay to the committee such fees in respect of any such inspection and report as may be authorised by the rules and agreed to by the appointing banks." That is a most important function, to which I should have thought everybody established by law with considerable powers ought to be subject?—We have got the Chief Registrar's inspection under the Friendly Societies Act. This is a thing for the societies among themselves; a totally different thing. A purely official inspection is not good, because it easily degenerates into a matter of form. What you are contending

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Mr. WOLFF.

[Continued.]

Lord Welby—continued.

contending for we have really got under the Friendly Societies Act.

292. Do you say that under the Friendly Societies Act the provision is such that an inspection of this kind is provided for?—There is an inspection every year. In fact, the co-operative societies want to go further, and to give the Chief Registrar power of inspecting *ex proprio motu* if he chooses to do so.

293. I should like to ask you one question: In these small bodies is there not some danger in combining co-operative trading and banking?—I am only in favour of it in very small societies, where they could man the two committees. When I started the idea in Ireland, and wrote about it to the *Irish Homestead*, they were taken aback for a little while, but now they have all come round.

Chairman.

294. On this point which Lord Welby has just put to you, why should there not be two separate societies in the same district manned by the same men, one a banking society and the other a co-operative society?—There would be a difficulty about that.

295. It seems to me that Lord Welby is right, and that it might introduce great confusion if you had the two things, banking and shop-keeping, worked in the same business?—I do not think so at all. Besides, there are separate accounts; that is provided for. That was Raiffeisen's original idea, and it is working exceedingly well in Germany, where they have the two things combined, and there the bank can help the trading department with money as I instanced the case of that threshing machine which the society bought with the money provided by the bank; they paid for it out of the hire of the machine, and when I was there they had the machine and steam engine belonging to it at their disposal, and it had never cost them a farthing.

Lord Welby.

296. I have only one more question to ask you: Do you not think there is a certain amount of risk in these credit institutions tempting depositors, if they want them, by offering interest in excess of what is given by the Savings Banks, which would be more than the society could properly earn?—I do not think there is very much chance of that. I am afraid for a long time the deposit transactions will be very small. After a certain time I agree they will become considerable.

297. There have been temptations of that kind before now. I believe they have been known in old times in connection with Savings Banks, and so forth, even although they were limited?—Yes.

298. Of course, in the case of people who are not very well instructed in these matters there is a temptation to them to think they can earn more, and perhaps they go into some risky business for that purpose, and then they tempt deposits from banks, and so on, by giving somewhat higher interest than prudence would sanction?—I do not think there is any danger of that, but our reasoning goes the other way;

Lord Welby—continued.

it goes this way, to show that because they have got more lucrative employment for their money than the Post Office, therefore they will probably be able to allow a little more. I have gone into it carefully in Italy. Hodgson Pratt thought they took more money because they offered higher interest; but I found in some cases that they offered even a lower rate of interest than the Post Office Savings Bank in Italy, and still the people thought more of them, and cared more for them because they were the local institutions manned by their own nominees, and keeping the money in the district.

Lord Northcote.

299. If the same men are managing the banking business of the society, and at the same time doing a co-operative trade, is there any security that they shall not, as managers of the bank, lend themselves money for co-operative trading purposes?—I do not think there is any fear of that; but, as I said, I am only in favour of their combining the two where the societies are very small, and in that respect I should give full discretion to the Chief Registrar; let them come to him and say "We are situated in this way, and we claim to exercise those powers," and if he says "No, I think you are a wrong case," there would be an end of it.

Chairman.

300. There is no provision in the Act for any procedure of that kind?—No; but as I told Sir George Murray, I understood the Treasury were going to have some amendments drafted, and I put off further amending this Bill till I knew what they were going to be.

Earl of Cromer.

301. Did not some abuses arise in Germany under the Schulze-Delitzsch plan?—That is a different thing; these are not the Schulze-Delitzsch plan.

302. The cases were analagous, were they not?—There have been abuses.

303. Of the nature which Lord Northcote indicates?—No; because the Schulze-Delitzsch banks keep everything perfectly distinct (it is only the Raiffeisen societies which do otherwise), and they will not have a credit society dabbling in anything else, or a distributive society dabbling in credit. Their distributive societies do not take deposits as the distributive societies do here, so that that could not happen.

Earl of Shaftesbury.

304. Do you not think there should be some such provision as that there should not be a higher interest than in the Post Office Savings Bank?—I should not like to say that. The principle is that the committee should act, that the council of inspection should overhaul everything it does, and then the council of inspection reports to the general meeting; so that there are two stages of control, and then there ought to be a committee of inspection. That would be a third stage, and on the top of them all the Chief Registrar.

305. These

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Mr. WOLFF.

[Continued.

*Chairman.*

305. These banks under this Bill are to be banks within the meaning of the expression "specially authorised" under the Friendly Societies Act, 1896?—Yes.

306. I have no doubt you can tell me, and I do not know, does the Treasury specially authorise each bank, or is each bank created under the general authorisation from the Treasury?—Under the general authorisation.

307. That is the authorisation of 1903?—Yes.

308. And, therefore, each one of these banks must be a bank authorised by law by virtue of that special authority?—Yes.

309. And, therefore, governed by the provisions of the Friendly Societies Act?—Yes.

*Chairman—continued.*

310. Have you considered what particular clauses of that Act are to apply to your bank and what are not?—No, there are a few clauses we want to exempt those banks from. As every society has to submit its rules for approval to the Chief Registrar, he will decide whether the principles are properly observed or not.

311. You see that *pro forma* set of rules (*handing the same to the witness*) provides for which sections are to apply and which sections are not to apply?—That comes from the Registrar.

312. The Registrar under the Friendly Societies Acts is to say what provisions of the Act are to apply and what are not?—Yes.

## *Die Mercurii, 15<sup>o</sup> Junii, 1910.*

### LORDS PRESENT:

Earl of SHAFTESBURY.  
Earl of CROMER.  
Lord HERSHELL.  
Lord WELBY.

Lord NORTHCOTE.  
Lord MACDONNELL.  
Lord MERSEY.

### The LORD MERSEY IN THE CHAIR.

MR. GEORGE RUSSELL is called in; and Examined.

*Chairman.*

313. I see that for 12 years you have been connected with the Irish Agricultural Organisation Society?—Yes.

314. What is that society?—It is a society which was promoted by Sir Horace Plunkett to organise the farmers of Ireland for business purposes, the main principle being to use combination, wherever combination for the purpose of manufacture or sale would benefit the members, rather than individual action.

315. How many members of that society are there?—The Organisation Society itself has, I should say, about 300 or 400 members—that is, individual members apart from the society members, who now constitute the most important part of its membership.

316. How many society members are there?—If I may be allowed to go through this paper which I have prepared, that will explain it.

317. Perhaps that will be the better plan?—I have been for 12 years connected with the Irish Agricultural Organisation Society, for seven years having had the general superintendence of the work of organising agricultural credit societies, and for nearly five years I have been

*Chairman—continued.*

editor of a weekly paper founded by that body to promote agricultural co-operation among Irish farmers. The society on whose behalf I am here to give evidence has been in existence since 1894. It was founded by Sir Horace Plunkett with the object of organising the Irish farmers for business purposes, and of guiding and supervising them when organised. At the close of 1908, which is the last date for which complete statistics are available, as a result of its work there were in Ireland 357 co-operative dairy associations with a membership of 42,404 farmers and a turnover of £1,726,596. There were 166 agricultural societies with a membership of 12,999 and a turnover of £87,045. There were 24 poultry societies with a membership of 6,650, and a turnover of £72,595. There were 268 agricultural credit societies with a membership of 17,403 and a turnover of £56,004. There were 67 associations with miscellaneous objects with a membership of 6,483 and a turnover of £310,138. The complete trade turnover of these associations for that year was £2,252,380, and the membership totalled 85,939. Since then there has been a great increase



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Mr. GEORGE RUSSELL.

[Continued.]

*Chairman—continued.*

crease in the number of societies, and their turnover during the present year should be close on £3,000,000, and the societies are well over 900 in number, and it is likely they will be increased to 1,000 in a few months. I mention these facts to make clear that we, who desire to see the Thrift and Credit Banks Bill which was introduced by the Earl of Shaftesbury, receive the approval of both Houses, have a very practical and intimate knowledge of the business of farmers in Ireland, and our support of this Bill is due to it having been gradually forced on us that increased powers for agricultural credit societies were necessary to their success and continued progress. I do not wish to duplicate evidence by Mr. Henry Wolff or by Sir Horace Plunkett in regard to the principles of co-operative credit. They are both great authorities on the economic, moral and social effects of this peculiar form of agricultural co-operation. I can, however, probably speak with more personal experience than either of them of those troubles and hindrances in the development of these societies in Ireland due to the present limitations of their powers. I had hardly begun my work as an organiser of agricultural banks in 1897 when it was forced on my attention that legislation with special reference to the constitution of agricultural co-operative societies was urgently required. The two Acts under which all our farmers' associations in Ireland were registered, the Industrial and Provident Societies Act and the Friendly Societies Act, were devised mainly to meet the requirements of townspeople. It was found impossible to register societies in Ireland under either of these Acts with the peculiar constitution which in Europe had been found most suitable for agricultural communities, and which met their peculiar needs most intimately. Co-operative credit in the form in which Raiffeisen, the German founder of the movement, created it, meant that a number of poor men, who individually had little security to offer to banks or capitalists, joined together in an association to create a greater credit by their union than they could offer individually. Every member of these associations was jointly and severally liable with every other member of the association for the debts which any other member and his sureties might fail to pay. They were poor men, unrecognised by the capitalist as persons promising any reasonable security. Only the usurer would deal with them, and then only at exorbitant rates. The problem which Herr Raiffeisen had to solve in the backward districts of rural Germany, was how to create among the very poor a security which would be recognised by the honourable capitalists who would, on this security, advance money at such moderate rates that there would be some real advantage to the borrower. He solved this difficulty by basing his societies on these fundamental principles: First, every member was, as I said, jointly and severally liable with other members for the debts of the association. Second, there was a strict character test for admission. Third, the area of the societies was limited so as to ensure that personal knowledge of each other among the members which was necessary to establish

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*Chairman—continued.*

mutual confidence. Fourth, the purposes for which money was advanced were inquired into in every case, and money was only lent for profitable or productive purposes or to effect some economy. With his associations worked on such principles, Raiffeisen solved the problem of cheap credit for poor rural communities. It became generally recognised that the faith which was built on a number of honest men working together, trusting each other, was built on a rock, and thousands of such associations sprang up over Europe, and their peculiar constitution was recognised as specially adapted for communities of small farmers. Hearing through Mr. Wolff of the success of these agricultural banks on the Continent, the committee of the Irish Agricultural Organisation Society naturally wished to see whether the system might not prove as beneficial in Ireland as it had proved in Germany and elsewhere. More than half the farmers in Ireland are men who do not hold more than 15 acres. The difficulty of securing cheap credit was great in Ireland. The country at that time was overrun by private moneylenders, whom we call "gombeen" men.

318. What does "that time" mean?—At the time we began in 1898. There were many strange methods adopted by small farmers to get money, and even the best institutions, the joint stock banks, were not always willing to lend to small farmers coming from remote districts, and their system of three or four months' bills was unsuitable for the farmer's industry, and necessitated renewals which were expensive when men had to bring in sureties many miles, treat them, and give them a dinner. The system of co-operative credit devised by Raiffeisen seemed exactly the thing to suit our small Irish farmers, but when the attempt was made to draw up rules embodying the full constitution of the Continental associations, and giving to our societies the same powers, the founders were met with these difficulties. There were two Acts—the Industrial and Provident Societies Act, which gave trading power but did not permit of the principle of joint and several liability which was the essential feature in the German system, and there was also the Friendly Societies Act, which permitted societies to be constituted so that the members could become jointly and severally liable for the debts of the association and could naturally back each other up, but it did not permit of trading powers, and it was very inadequate in other ways for the purpose required, as we soon found out.

319. Will you go on to tell us in what other ways?—Yes. The promoters of co-operative credit decided to register their associations under the Friendly Societies Act, and, on the application made to the Treasury, registration was permitted, and certain sections of the Act were extended to these societies, which were called "specially authorised societies." Soon after the registration of the first societies in Ireland, we found that this building up of a constitution for our societies out of shreds and patches of an Act devised for quite different purposes was very unsatisfactory. It was as difficult to recreate Raiffeisenism in Ireland out of a score of sections of the Friendly Societies Act

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*Chairman—continued.*

as it was for the Jews to make bricks without straw. Our societies were no sooner registered than they were informed by lawyers that while credit societies were legally empowered to lend money, they were not legally empowered to borrow money, that there was no permission in the Friendly Societies Act which gave our credit societies any such power.

320. Is that so?—I explain how it was amended later on.

321. I do not think it is so?—We were informed so at the time. These associations of poor farmers were allowed to lend money but not to get it to lend. They also were in the position of trying to make bricks without straw. However, the legal mind is very inventive. Having first told us that the societies as societies had no borrowing powers, they cheerfully helped us to devise a plan of driving a coach and four through the Act, and said that if certain members of the societies would accept personal liability for moneys entrusted to them, they in their turn, as private individuals, could lend it to the members of the societies. We were to work on this plan while an attempt was to be made to make it legal for societies to borrow. Our first attempt at patching the Act was called the Societies Borrowing Powers Act, which was introduced by Sir Horace Plunkett, and which became law in 1899. This short Act gave our credit societies power to borrow money and receive deposits from persons other than members, and they multiplied in the poorer parts of Ireland, and I put in as evidence a statistical table from the Annual Report of the Irish Agricultural Organisation Society, which shows that in December, 1908, there were 268 credit societies with a membership of 17,403, a loan capital of £5,123, and a turnover of £56,004. They have accumulated a reserve fund amounting to £3,620, made up of the margin between the interest received and paid. We had settled one difficulty in the organisation of these societies, but there were others which are still unsettled but which, I believe, the Thrift and Credit Banks Bill will, if passed, enable us speedily to remove.

322. Do you state in your proof what the other difficulties are?—Yes. It is obvious that when societies borrow money at from 3½ to 4 per cent., and lend it out again at 5 per cent., which is the average rate of interest charged, there is a very small margin for profit. The profits mentioned above are the slow accumulations of hundreds of societies spread over 10 or 12 years, and they only represent an average of about £13 per society. The societies do not aim at making profits on their loans to members, but to lend on such terms that the members can make profits on their individual transactions. This is quite as it ought to be, but it means that the societies find themselves unable to make any contribution which would cover the expenses of supervision, which is most necessary in societies of very small farmers, many of whom are illiterate and few of whom have any business training or education.

323. Does that mean that there ought to be a fund for the purpose of paying secretaries, and people of that kind?—Yes; I explain that later on.

*Chairman—continued.*

324. That is not, as I understand, one of the principles of this Bill. One of the principles of the Bill is that the labour necessary, unless it becomes very large, should be provided gratuitously?—The committee are not paid; only the secretary who keeps the books. For a great number of years the Irish Agricultural Organisation Society paid the expenses of organisation, audit, supervision, and stationery. It was asked for some time to do this by the Department of Agriculture, but as it seems necessary under our present system of government that the economic policy of the departments must assume a different complexion after the general elections, when Sir Horace Plunkett resigned the Vice-Presidency of the Department and Mr. T. W. Russell reigned in his stead, the subsidy was withdrawn.

325. What was that subsidy—how much?—It was based upon voluntary contributions.

326. It was a shifting amount?—A shifting amount based upon voluntary contributions. It did not seem to be part of the Irish policy of the present Government to encourage agricultural co-operation. I do not mention this simply to make any point of a political character, because I do not want to make any claim on the Department of Agriculture, but to show how, when the subsidy which the Irish Agricultural Organisation Society received to aid them in the expense of supervision was withdrawn, it threw altogether on an association with a small and inadequate income the entire work of supervision, audit, and organisation of these societies. As the societies themselves with their present constitution and powers were unable to earn profits large enough to allow them to make any substantial contribution to these expenses, we felt that the question of extension of these powers had become a really urgent matter in Ireland. If the societies had in addition to the banking powers they at present possess, the power of supplying goods to members, a power which Mr. Wolff declares Raiffeisen banks enjoy all the world over, they would be enabled to earn profits on this side of their business which are at present impossible to earn.

327. Under the Industrial and Provident Societies Act they could have that power?—I will deal with that question later on.

328. But that is so, is it not?—Yes, that is so. I think it very undesirable that the State should sanction the organisation of associations under conditions which do not readily permit of safe or successful development. Our Irish Agricultural Organisation Society receives affiliation fees from dairying, egg, poultry, flax, and other trading societies, which enables it to send its organisers to give help where required. They sell their butter, eggs, poultry and flax, and make profits on the sale out of which they can pay for supervision and business advice. The agricultural credit societies alone, of all the co-operative associations in Ireland, are not in a position to be really self-sustained or truly independent in the sense that they can pay for what they get. The communities they work among are poor and crowded. There are many small loan transactions in the accounts. They cannot

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cannot give any real recompense to the secretaries who keep their books.

329. Is there anything in this Bill which will provide funds for paying secretaries? Your evidence seems to me to point to a grievance of this kind—that there is no subsidy and there ought to be a subsidy from the Government for the purpose of paying, or of affording means of paying, the people who work these societies?—No, I do not make that point at all. I say distinctly I wish to make no claim upon the Department of Agriculture for a subsidy.

330. You say here: "The agricultural credit societies alone, of all the co-operative associations in Ireland, are not in a position to be really self-sustained or truly independent in the sense that they can pay for what they get. The communities they work among are poor and crowded. There are many small loan transactions in the accounts. They cannot give any real recompense to the secretaries who keep their books." Am I to understand that one of the objects of this new legislation—whether it is provided in the Bill or not—is to get from the public some means by which there could be paid secretaries?—Not to get from the public.

331. From where?—It is to enable the societies to get powers of earning profits so that they may become independent.

332. I was pointing out to you that they have those powers under the Industrial and Provident Societies Act?—I explain later on why we cannot use that Act.

333. Then will you proceed?—They cannot afford to pay for the aid of an outside body to check their work or advise them in difficulties, and this is altogether due to the limitations of their powers and to the fact that they have been forced, owing to the past indifference of legislators or their ignorance of the real problem of rural economy, to attempt to make bricks without straw—that is, they have tried in Ireland to repeat the wonderful work of the Continental societies without the full powers which enabled these Continental societies to spread successfully.

334. Have you anywhere a copy of the rules of any of these German societies?—I have not got one with me, but I could furnish one.

335. But have you got one at all?—I have not got one.

336. Have you ever read a copy of them?—Yes, I read them some years ago.

337. I should very much like to see a copy of them?—I can send one to you.

338. (To Mr. Wolff.) Have you a copy of any of the rules of the Raiffeisen Banks?—Yes, only they are in German, in their papers. No doubt I could get one.

339. (To Mr. Wolff.) Do you happen to have one here?—No.

340. (To Mr. Wolff.) Could you bring us one next time?—I will write for one. I could get them at once in the papers, but not separately.

341. (To Mr. Wolff.) I think I am right in saying there is no translation of these rules in your book?—No, I have not translated them. Sir Francis Nicholson, an official of the Government of Madras, has translated them in his book; he translated every word of them, but those are the old rules, though they will answer your purpose I daresay.

(O.7.)

*Chairman—continued.*

342. No doubt they will. Where could we get that Report containing them?—They have it at the India Office.

*Chairman.]* We can send there for it.

*Witness.]* I will give an illustration which shows how this limitation of power hampers not only the societies but the State in its desire to ameliorate the economic conditions among the small farmers. These credit societies, which are numerous in congested districts and all along the western seaboard, are practically the only farmers' associations in these very poor areas. The Department of Agriculture some few years ago wanted to introduce a better class of seed potatoes in the West of Ireland, the repeated failures of the potato crop having forced on their attention the inferior quality of seed supplied locally. The only other organisations they could work through were the unions, but these had very undesirable associations in the minds of the people. They had been accustomed to look to the unions for relief, and this particular machinery was not the most desirable to use with farmers. The Department approached the Irish Agricultural Organisation Society to see whether the machinery of the credit societies could be used for this purpose. We explained that the societies had no purchasing powers, that they could not legally buy seed oats, seed potatoes, and spraying material, or indeed anything except stationery and books to keep their accounts in. However, with that cheerful disposition to evade the law which exists in all quarters of Ireland, even in its Government Departments, we very soon patched up a scheme by which the Department lent money to the credit societies as societies. The societies formed unofficial committees which had no legal or corporate existence. These committees obtained quotations from merchants whose seed was examined and approved by the officers of the Department. Then the societies found from each member what quantity of seed potatoes he required. He was given a loan to cover the cost. The member then passed on his cheque endorsed to this unofficial committee, who passed it on to the seed merchants. It was a most cumbersome method of doing business. It necessitated three or four visits to each society, and travel and car hire is very expensive in the West of Ireland, but it was the only way possible, because the societies had no direct power of joint purchase for their members.

343. When was this state of things existing?—About four years ago.

344. Why did not they register themselves under the Industrial and Provident Societies Act, and then they would have got all these powers?—I will deal with that question in a minute.

345. I want you to deal with it now?—I do immediately deal with it in my *précis*. If the Thrift and Credit Banks Bill had been in force at the time, and the members had its provisions incorporated in their rules, the whole business could have been done by correspondence. It may be asked why we are not content with the power our credit societies have at present, and start alongside them other societies with trading

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powers and register these under the Industrial and Provident Societies Act. There are several reasons why we do not do this. The most cogent reason is that it is difficult enough as it is in a poor and backward district to get one efficient committee and officers, and if we had to get another we would find it a practical impossibility.

346. Why is it necessary to get another? Why will not the same committee do for both?—It has been suggested that the same committee could run both societies, but as two sets of books would have to be kept, transactions would be duplicated, there would be an enormous amount of unnecessary trouble, and we need above all things in organising small farmers to have a very human simplicity and directness in our methods of work.

347. When you say that two sets of books would be requisite, with which I quite agree, do you mean to say that if it was one society carrying on banking and trading, that one society would not also require two sets of books?—It would be one person doing it and looking after it.

348. It might be, I agree, one person doing it, but you must have two sets of books; you could not muddle up the banking business with the trading business?—I agree.

349. Therefore the point about requiring the two sets of books seems to me to have nothing in it. Two sets of books would be necessary in any case?—It would mean double meetings of committees.

350. Not a bit. You can call your meetings for one time on one occasion, and let the deal with the business in whichever order they like to take it—first the banking business and then the trading business?—I will deal with some of the difficulties later.

351. You say, "Two sets of books would have to be kept, transactions would be duplicated, there would be an enormous amount of unnecessary trouble"?—Yes. When farmers have asked me as an organiser why they could not do something which seemed to them quite the obvious and right thing to do, they listened with bewilderment and impatience to statements about the law not permitting this or that, and were inclined sometimes not to go on at all with the work. We must throw no unnecessary legal difficulties in the way of agricultural organisation. If the members of this Committee know as I do the trouble taken by these small Irish farmers to build up their organisations, how they walk long miles to committee meetings, canvass for members and shares, overlook accounts, go into creamery estimates, quotations, for manures and seeds, all on behalf of their neighbours, without receiving a penny in payment for this committee work, I believe they would share my desire to remove any legal obstacles to the development of this work, which is coming more and more in Ireland to be regarded as the salvation of the agriculturist. It would in the majority of districts in the West of Ireland be quite impossible to get people to run two societies, one a credit society and the other a trading society, together, so we ask for powers of joint purchase to be given to the existing

*Chairman—continued.*

credit associations. I may mention that an attempt was made in the West of Ireland, after I had started a bank, to start a trading society in connection with that, and it was the complication in doing the business which forced me to realise that the thing was impossible—that it could not be done.

352. I shall want you later on to expand that, because the very object of this Bill is to enable societies to be formed which can do both branches of business, and if as you say it introduces such confusion and complication that it is not practical, then I do not know what the use of the Bill is?—I will be ready to go into that. I have read through carefully the various clauses in the Thrift and Credit Banks Bill, and believe it will enable us to perfect the organisation of our credit societies in Ireland. Where they are imperfect at present, it is mainly due to the fact that they have not these powers now, have no power of earning profits, no capacity to subscribe to the funds of a central institution, and the Irish Agricultural Organisation Society is not wealthy enough to overlook their work.

353. Stopping there for a moment, I understood from Mr. Wolff that one of the objects of these societies—it seems odd you know—is that they should not earn profits?—The objects of the banks in their banking department is not to earn profits but to lend to members at low rates of interest.

354. If they earn profits in their trading as distinct from their banking—I do not know why on principle there should be a distinction—the profits as I understand are distributed amongst the purchasers?—I will deal with that question. The Irish Agricultural Organisation Society is not wealthy enough to overlook their work as it ought to be overlooked for several years until the associations develop a good tradition of business and begin thoroughly to understand and practise the principles embodied in their rules. I would suggest one amendment to the Act as introduced. Clause 2, Sub-Section (J) runs as follows: "That the surplus derived from such trading shall be distributed among the purchasers." I confess I do not like these imperative "shalls." I do not see why it should be imperative on the society to divide any profits made this way. I do not see why they should not be allowed, if they please, to vote such proportion of their profits as they choose to the reserve fund of the credit society. We aim above all things at getting a reserve fund. The strength of the reserve fund is a great inducement to depositors to come in. Now, if it fell to my lot to recast the rules of credit societies after this Act is passed, I would have inserted a rule stating that at least 15 or 20 per cent. of the profits in trading should be carried to the reserve fund of the credit society until that reserve fund was equal to half the deposits or borrowed capital.

*Earl of Cromer.*

355. That is what is done in the Raiffeisen system, is it not—the surplus goes to reserve?—I understand so. If this section is allowed to stand as it is, the reserve fund will, as before, be formed only from the small margin between the

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*Earl of Cromer—continued.*

the interest on money borrowed and the interest on money lent, and this mounts up too slowly at present to seem to depositors any real guarantee. I hope the Members of this Committee will bear my objections to this section in mind. I regard it as a most important point. The Bill as it stands I think is otherwise perfect from our point of view. I would like to see the power of recovering loans up to £10 in Petty Sessions rather than have them go to the County Court. I believe the loan fund societies have this power in Ireland, and I do not see why it should be withheld from credit societies. But I am not so much concerned with this as with the actual constitution of the societies, for, luckily, our societies have not often found it necessary to proceed against their members. But I would like to make it easier for societies to recover moneys due to them.

*Chairman.*

356. Will you tell us quite shortly what the advantages are which you think this Bill will secure, and which are not available under the law as it at present exists? I want to take them down one by one?—The first point is that the societies will be able to earn larger profits than they do at present.

357. Why?—Because of the powers of trading.

358. All you mean then is that this Bill enables a bank and co-operative trading society to exist under one roof, so to speak?—Yes.

359. Why is not that advantage procurable under the Industrial and Provident Societies Act?—Because, as I explained earlier, we cannot, under the Industrial and Provident Societies Act, get the peculiar constitution of the Raiffeisen Banks—that is, the power of joint and several liability for the debts of the association.

360. Then you agree with Mr. Wolff to this extent, that if you could get unlimited liability under the Industrial and Provident Societies Act, one of your objects would be attained?—Yes, I think if we had had that power under that Act we would never have asked for any changes.

361. That is what occurred to me. Mr. Wolff told us the other day that in his opinion, if he could only secure incorporation plus unlimited liability, the present machinery of the law would be sufficient?—Certainly. I quite agree with him.

362. You take that view too?—I take that view also.

363. Then it seems to me that a very simple alteration of the law—assuming it to be a good and desirable alteration—could be advocated, and probably advocated successfully. I do not express any opinion about that at present. But does it not come back to what Mr. Wolff says:—“Give us power to incorporate a society with the joint business of banking and trading with unlimited liability, and that is all we want”?—Yes, that is all.

364. That is what I thought he meant. If you will allow me to do so, I compliment you upon this proof, which I think is extremely intelligent and intelligible. Having asked that question, I do not think I want to ask you any

*Chairman—continued.*

more. If you get those two things, that is all you want?—That is all I require.

365. Because a great deal of what you talk about in this proof of yours can be secured by the rules which could be made?—Yes.

366. But in your opinion you do not secure unlimited liability and incorporation without the help of the law as distinguished from the rules?—That is so. The reason we require unlimited liability in Ireland is that there are very small farmers, and it is the only means of creating a security which would be recognised. We take every precaution in our rules to prevent that power of unlimited liability being misused, because the members at their general meetings fix the limits to which the committee may borrow money on their behalf, and that is discussed at each annual general meeting, and the committee cannot go beyond this limitation of borrowing powers fixed by the members themselves. Whenever a bank, a depositor, the Department of Agriculture, or the Congested Districts Board, are lending money to these societies, they ask to see a copy of the resolution of the members at their annual general meeting, empowering the committee to pledge the united credit of the association to that extent. So that there is a safeguard against any reckless use of the power.

367. I am told that Mr. T. W. Russell is antagonistic to these banks. Is that true?—Judging from his actions, I should say so.

368. Do you know why? Speak quite frankly to us, because we are going to hear him, and I should like to know from you, who take a different view, what, according to your idea, is in Mr. T. W. Russell's mind, and what is the answer to it, whatever it is?—If I am to answer that question I shall have to go into a survey of Irish politics.

369. Then I will not ask you to answer it?—Briefly, I believe it is a political opposition to the movement organised by Sir Horace Plunkett; but if you wish to ask me any other questions, not about his motives, I am quite willing to answer them.

370. I do not ask about his motives, but about his reasons, which I think are different things?—Those are locked up in the secrecy of his own mind; but it seems obvious to me it is political hostility.

*Earl of Cromer.*

371. A few questions about how you originally get the money for these various banks. I understood—I am not sure if I understood rightly—from what Mr. Wolff said the other day, that in the original starting of banks he relied a good deal upon purely philanthropic efforts—that he, I think he said, hoped that the squire and a few other wealthy men would provide the money in the first instance. Then it was pointed out that the squire would have nothing to gain by it, and though he might very likely give a gift, at the same time he might very possibly dislike the idea of giving a gift and assuming an unlimited liability for all the debts of the bank. Has that aspect of the case been brought before you? You understand my point?—I do understand your point. The depositors need not become members of the association. A wealthy man might

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might very easily lend money to one of these associations, but not become a member himself. I have found in Ireland that the wealthy very often join with the poorer members, and in many cases the local landowners have been very friendly to the movement. In the case of one of the earliest banks I started in County Mayo, I spoke to Mr. Pratt, who was a large landowner in Mayo, and he asked what interest they would give. I said: "3 per cent." He said: "I have £300 or £400 lying at the Bank at Ballina, and if I can get 3 per cent. on it I will willingly lend it, as I know these people are quite honest." So at the starting of the society he helped and became secretary for some years. It has been a successful association, and never made a bad debt since it began, and I think there is a reserve fund now of over £100, accumulations of the small margin between the interest on money received and on money lent. The members, finding their local landlord was satisfied with 3 per cent. and thought it good interest, began to wish to get it themselves on their own money, and began to pay his money back, and now I think it is all their own money on deposit. I have the details of that bank. If you would like to know the details of the transactions of any of these societies, I have them here in this Table. The Bank of Enniscoe, with 268 members, had a loan capital of £50, I think, from the Congested Districts Board. There was £466 on deposit from very small farmers, men with holdings of from 5 to 10 acres.

*Chairman.*

372. They use it as a sort of savings' bank?—Yes.

*Earl of Cromer.*

373. Has the money usually been got from a few wealthy local men—the squire and others—or from any local bank?—From three sources—the Department of Agriculture or the Congested Districts Board have lent small sums of from £50 to £100 to a number of these banks. The second source from which we draw is the Joint Stock Banks, which are not at all unfriendly to us, and they are willing practically all over Ireland to lend money on overdrafts at 4 per cent. That enables the society to lend out to its members at 1d. per £ per month, which is a popular rate of interest. The banks are not unfriendly. A director of the Bank of Ireland told me that he thought our societies should spread, and should do what he called all the retail business in cash, and the large banks ought to do the wholesale business in lending. Another bank manager told me it would be cheaper for his bank to lend money at 4 per cent. or 3 per cent.—say—£1,000—to one of our associations than to lend it at 10 per cent. in a number of small loans—say £2, £3, £4, or £5—and keep a clerk to look after the accounts.

374. What capital do you generally require to start one of these small banks?—The smallest capital I know was £3 put in by a Catholic curate. I think in this society now they have £700 or £800. They proceeded on the plan I advised. I advise them simply to begin little by little, and not to borrow any money that they

*Earl of Cromer—continued.*

could not safely lend. So the one who started it went round among his friends and got promises of deposits if required, and when the first loan was asked for he went to the first of his friends who put in £3 as a deposit to cover that loan. He began in that way very slowly working it up.

*Chairman.*

375. I do not understand the provision in this Bill for what is called a Central Bank. There is no provision in the Bill for such a thing, but such a thing is referred to, and we are told that it is intended to be in the Bill. What is the necessity for it?—The necessity of it is to act as a kind of clearing-house by which, when local societies have got more money than they can utilise, and deposits come in too rapidly, they can transfer some to the central organisation, which in its turn will lend it to societies which have not sufficient capital. There are numbers of societies at present with more money, and offers of more money, than they can utilise themselves, and they have told me they have had to refuse offers of deposit; but if we had a central bank we could help the very poor districts which have not sufficient capital. I also think that it would be easier for the Joint Stock Banks or capitalists to deal with a central bank than to deal with the local banks.

376. Certainly it would?—It would save them a great deal of trouble in overlooking the accounts of distant associations among the hills and bogs.

377. You would regard the central institution, as it is called, as a means of distributing the money in hand over a larger area than the local credit banks could distribute it over?—Yes; I should say a central bank would serve this purpose: It would, if well organised, with a few representative men whom bankers would trust, enable our small associations to tap more securely the capital in our Joint Stock Banks in Ireland, who would probably more willingly treat with a central bank.

378. There is, I suppose, all over Ireland a network of local banks?—Yes.

379. Branches of different Irish Banks?—Yes.

380. What occurred to me was that these local banks might be able to do that work without creating new banks to be called Central Institutions?—There is just this trouble, and it is the one point of jealousy, that our banks wish to take deposits and the Joint Stock Banks also wish to get deposits. We pay more to our depositors than they do. They pay 1 or 1½ per cent., and our banks pay 3 and sometimes 4 per cent. in poor districts.

*Lord Welby.*

381. Then I understand that with regard to a central bank your position is this: If there is no central bank the small society will be in direct communication with the local bank. If a central bank came in between, that central bank you think would be able to get money from the Joint Stock Banks on better terms, and would be able to be the distributor of that money to the different small societies?—That is so.

382. By

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Mr. GEORGE RUSSELL.

[Continued.]

*Lord Welby—continued.*

382. By that means you would get what I may call a larger competition for the funds?—Yes.

383. And the security of the Central Banking Institution would be better viewed than that of what I call the small parish banks?—That is, of course, our hope. One can never say in Ireland what view a bank will take upon a matter of that kind. But I think finally they would come to recognise this as the commonsense view. Before they understood the purposes of these mutual associations, they viewed them with a great deal of suspicion; they thought them rivals starting up. I think the most intelligent of the bank managers I have spoken to now realise that our societies would be useful agents to enable them to utilise their capital and tap a kind of customer whom hitherto they have not touched in the country, that is the very small farmer.

384. The Chairman put the question whether that could not be done by the local bank as well as by the central bank. That work of distribution would perhaps hardly fall within the functions that a local bank would undertake?—Of course, it could be done, but I prefer finally to see a central bank doing it, because I mistrust the other banks in the event of our societies getting deposits. I do not know what they would do then, and I would like to have a reserve institution in the case of their hostility to our taking deposits.

*Chairman.*

385. You may make the local banks hostile to your movement?—They are not hostile at present.

386. But you may make them so. If you go tapping the sources of their deposits they will not like it a bit?—No.

*Earl of Shaftesbury.*

387. On the question of a central bank, is not the idea of instituting these central banks to provide for an improvement and a still greater safeguard by a joint board of management? Is not that rather an essential point?—Yes.

388. We desire to see plenty of inspection with regard to these co-operative credit societies, and does not the mere fact that you have a central institution, and a joint board of management, provide a greater safeguard?—Yes. I understand in Germany—Mr. Wolff can correct me if I am wrong—that central banks have agents who supervise the working of the local societies. It would be an additional check. Some of the provisions in this Bill, I think, are mainly for the benefit of the English societies, and there are some we are more anxious about in Ireland. I am not quite sure whether we can start a central bank in Ireland at present. We have thought of it, but as long as the joint stock banks are friendly there is not the same need.

*Chairman.*

389. Speaking for myself, I do not see what you want any legislation for at all for the purpose of starting a central bank. You may start it under the Companies Acts; you only require

*Chairman—continued.*

seven signatories, and it is done?—We do not ask for power to start a central bank, but for power to enable our societies to contribute to a central body, which is a different thing altogether.

*Earl of Shaftesbury.*

390. At the present moment these co-operative societies work through trustees under the Friendly Societies Act?—Yes.

391. The advantages of incorporation are asked for in this Bill, and I think some of us would like to know in detail the disadvantage of working through trustees and the advantages to be gained by having a corporate seal of their own. Could you explain that in a few words?—I have never found any disadvantages myself from having to work through trustees. Our local societies, if ever they have to prosecute anybody, instruct the secretary or the trustees to get a solicitor to do it. I have never found any disadvantage myself. I do not know how it may be here in England with these societies.

392. You do not think there would be much advantage in pressing for incorporation?—I am not particularly concerned about it. It is the trading powers and unlimited liability which are the central points with me. I would not like to say anything against the idea of incorporation, but I have never found any need for it myself in Ireland.

393. The question has been asked, where does this loan capital come from in starting these co-operative societies? Am I right in thinking that the majority of these societies have been started upon a loan from a joint stock bank?—The great majority of them at present are started in that way.

394. Then the committee of management is composed entirely of the local farmers in the district?—Yes, there may be a clergyman or two, or a schoolmaster, or some person of that kind. We try to get some person of more education than the average farmer, and, generally speaking, the Protestant or the Catholic clergyman, or the doctor or national school teacher, are members of the committee.

395. The local joint stock bank finds in the combination of this class of small people sufficient security for issuing a loan?—Yes. Hitherto, so far as I know—and I think I should have heard of any prosecution—no joint stock bank in Ireland has had to prosecute any of these societies for non-payment of their loans.

396. The societies are formed in spite of the fact that in many instances there is no local magnate or squire?—Yes, I know one case where agricultural labourers formed a bank, and the Bank of Ireland lent them money on overdraft at 4 per cent. I think there were about 60 agricultural labourers, and the president was a stonemason, the secretary a carpenter, and they held their meetings in a carpenter's shop.

*Chairman.*

397. What was the object of that society?—To help agricultural labourers to buy a cow or pig, or help them in their small plots.

398. All



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[Continued.]

## Earl of Shaftesbury.

398. All their transactions were small?—The transactions vary in size. In the West of Ireland the average loan would be about £3 or £4. In districts like Wexford, Louth, or Armagh they might go up to £10, £12, or £14 on the average. In the West of Ireland the farmers might want to buy a couple of young pigs, or manure—"bag-stuff," they call it; and elsewhere they want cows, or some larger transaction; but none of the transactions of Irish farmers would be considered anything but small by English farmers, because the area of the farms is so small.

399. I am right in supposing that these banks are very often started without any deposit capital at all?—Yes.

400. But deposits are encouraged?—Yes.

401. And it is not necessary for the committee of management to have any moneyed member on it?—No, it is not necessary.

402. The combination provides the necessary security?—The local joint stock bank, whenever an application comes from a credit society, inquire into the list of members, and if they think that among them there are men quite good for the amount asked for, they therefore lend it to the committee.

## Earl of Cromer.

403. Entirely on personal security?—Entirely on personal security. They take the personal security of the committee, who they know are re-insured by all the other members of the society, and they have regarded that hitherto as ample security.

404. Have they had good reason to believe that that confidence is justified?—They have been lending for a considerable number of years, and there are no people more suspicious than bankers in country districts with small farmers, and you very rarely read in a local paper of any prosecution by a joint stock bank of any borrower.

405. Most of the money has been advanced by joint stock banks, and not subscribed on philanthropic grounds by the landlord or other local man?—Very little of it indeed in that way. I should say one half are local deposits and the other half, excluding the sums lent by the Departments, are overdrafts from joint stock banks or loans.

406. I suppose in the case of those which have to rely on subscriptions, it would very often happen that many of the villages are on one estate, and there are several banks on the estate to one landlord?—That might be so in Mayo, where the societies are very thick, or in Galway.

407. But not generally?—I do not think they are thickly enough created in Ireland at present. You can see that from this reprinted list of accounts of all the banks in every county in Ireland, and their transactions (*handing in a document*).

## Earl of Shaftesbury.

408. Have you any reason to doubt the financial position of these banks in Ireland so far as you know at this moment?—I have no reason to doubt their financial position. Of

## Earl of Shaftesbury—continued.

course, nobody can really so perfect any kind of organisation that there will not be failures in it. The ordinary private trader fails from day to day, and I suppose there must be a certain percentage of our societies which do not work so perfectly as others, but I do not believe any money would be lost by a depositor or by the State or by a joint stock bank if they appealed to the Organisation Society to use its influence with the local societies for the repayment of any money they had borrowed.

409. Then anything that was wrong you would not say was the fault of the system, but rather the want of knowledge among the committee of management?—Yes, we really want inspection. It cannot be too often impressed upon those interested in legislation on this matter that our Irish farmers are very, very small farmers, very backward, and very unbusiness-like. They are elderly men, the heads of families who have not any experience of business, and they require supervision for a certain number of years to get them on the right track and to create a good tradition of business. We find once they begin really to understand the meaning of mutual liability, the character tests, and the purpose of the loans, they work very well and need very little except an annual audit, but it is very necessary, especially on the West Coast of Ireland, and in the very small communities, to have a supervising body, and since the State has withdrawn the subsidy I fear it is necessary to get some means by which these societies can pay for supervision, and the only way is by giving them the power of earning rather more profits than they can earn at present.

410. On the question of officers, of course, the committee are supposed to entirely manage their own affairs in these co-operative credit societies, but the system provides for one officer, a secretary, who has nothing whatever to do with the handling of the money, but who supervises the accounts?—Yes.

411. I gather that these co-operative credit societies in Ireland at present have not been able to make sufficient, and have not had the wherewithal to pay a man of this character as secretary?—A few of them, which have been established for a long while and have got local deposits, have been able to pay their secretary something, but there are very few who can do that.

411\*. You can say that a secretary is really a vital necessity?—A good secretary is a vital necessity, and unless you pay a secretary it is very hard to ask him to give security and to treat him really as a paid employee who may be ordered about.

412. If the society had trading powers as well, they would make sufficient profits to enable them to pay secretaries?—Yes, they would, and that is my point. They would be able to pay a good, efficient, business man to make it worth his while to devote his attention to working up the society.

413. You advocate an amendment in the Bill in Sub-Section (J), of Section 2, which provides "that the surplus derived from such trading shall be distributed amongst the purchasers"—you advocate 20 per cent. of those profits being put



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*Earl of Shaftesbury*—continued.

put to a reserve fund?—If the Act permitted it I certainly would make a provision that 15 to 20 per cent. of the profits should be put to reserve fund automatically until the reserve fund almost equalled the deposits.

*Chairman.*

414. I do not know why it cannot be done at present. The Bill might prohibit it if the Bill became law, but assuming the Bill does not become law in that connection, I do not see why, under the rules, the profits cannot be dealt with in the way you say?—In the present rules of our societies it is so dealt with; but this subsection in the Bill may be a hindrance to that.

*Earl of Shaftesbury.*

415. If this percentage of the profits goes to the reserve fund from trading, is it known that if these societies are wound up that reserve fund is not to be divided up amongst its members?—Yes.

416. That is one of the great principles?—Yes, it is.

417. And the money is then to be given to a local object, or something of that sort?—Yes, you might start a rural library, or something of that sort.

418. You do not think such a percentage of these trading profits would disappoint the members, and they would consider themselves entitled to a share of it?—I do not think they would mind that at all.

*Chairman.*

419. The great object of co-operative trading is to get your goods as cheaply as you can?—As reliable and of as good quality as you can.

420. As cheaply as you can—that is to say, proper goods at a reasonable price?—Yes.

421. You can only secure that by distributing the profits, because if this society made very large profits and did not distribute the profits, you would be paying a very large price for your goods?—The method of the small trader in the West of Ireland occasions great expense to the small farmers there.

422. Lord Shaftesbury asked you a question about the solvency of these banks. I suppose it has never arisen so far that any one of them has been wound up and extinguished?—We have ourselves wound up one or two of them.

423. Have they been insolvent?—The ones we knew about paid their debts.

424. If they paid their debts that is what I call being solvent?—They were solvent. They paid all their debts to their depositors.

425. Is there any reason to suppose that if through any panic or anything of that kind depositors were to call in their money all over Ireland these banks would come to an end and be insolvent?—We are much wiser I think than the average joint-stock bank because when we take a large sum of money we insist upon notice of withdrawal, and the length of notice of withdrawal depends upon the sum of money advanced.

426. What is the usual length of notice?—(0.7.)

*Chairman*—continued.

For sums like £5 or £10 a fortnight's notice is sufficient.

427. That is a very short notice?—When it is increased, say, to £50, they require three or four months' notice sometimes; but the societies which work on over-draft take care always to have a sufficient uncalled over-draft to enable them to pay a depositor at once on call.

428. You mean to say that these small banks in Ireland arrange with the local banks to have an over-draft which they can avail themselves of in case of necessity?—Yes.

*Lord MacDonnell.*

429. In connection with the system of trustees and the system of incorporation, if you proceed by the method of trustees, will the trustees always be members of the association?—They are not always, but they may be.

430. Will the joint and several responsibility of the association, or of the bank, be available to protect the man who advances money to trustees?—Yes.

431. Is that a principle of the banks at present?—Yes.

432. Is the joint and several responsibility of the members of the bank available?—It is available.

433. Have you ever found that there was an unwillingness on the part of banks to work through trustees—any sort of jealousy; or any sort of suspicion?—No. I have not found anything of it in Ireland.

434. So that you see really no great advantage in favour of incorporation as against the system of trustees?—I have no feeling, from an Irish point of view, on this subject at all. It may be quite different in England. I would not like to say anything against it, because if those who drafted the Bill had this in mind they must have had reasons for it.

435. Was it not your idea that the central institution should be concerned with financing the local banks—that they were to receive deposits from local banks, and assist local banks that were in need of money?—Yes.

436. That was the main object for such an institution?—It would act as a kind of clearing-house between the banks. Those having too much money and not knowing how to lend amongst their own members could pass it on.

437. Was there any intention of enabling those central institutions, as you call them, to take deposits from the outside public, and in such a way come into competition with the ordinary joint stock banks throughout the country?—We have not in Ireland considered that question yet, because as long as the joint stock banks are friendly to us we do not wish to start any rival institution. At present they afford our co-operative societies in Ireland money on over-draft on very reasonable terms. They recognise the co-operative principle and the co-operative society, and they lend at 4 per cent.

438. As the chairman pointed out, if you tap the same source from which the joint stock banks get their business, you will immediately come into collision with them. The idea, as far as I can understand, was that these central institutions

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Lord MacDonnell—continued.

institutions were to be repositories of the surplus of deposits in the local co-operative banks, and that they were to receive the profits from no other source?—I think we could explain to the bank directors that we really should not hurt them, because I think most of the deposits our banks get are withdrawn from the Post Office Savings Bank, and we would really tap a class of depositor whom they do not touch very much.

439. Are you aware that at present some of the joint stock banks in Ireland, especially the National Bank, have laid themselves open to receive very small deposits—in some instances 2d. and 3d. a week, and so on—from people throughout the country?—Yes, that was a late move of theirs, and I think it was due to the fact that they thought our societies would take that kind of business. The national Bank is not the only bank in Ireland doing that.

440. But have not they been very successful in that way, and have not they in infinitesimally small sums reached a very large total?—I could not say to what extent they receive deposits in that special way. I do not know whether they keep or publish any separate accounts of them.

441. I think you may take it from me that they have been successful so far. If you laid yourselves out to receive deposits generally, and did not restrict yourselves to receive deposits from your co-operative banks alone, you would bring yourselves into immediate collision with the joint stock banks?—We have not made an effort to start a central bank yet, and have not considered this question; but we should consider this question if it did arise.

442. Have you found the joint stock banks treat you considerately in making advances?—Very considerately indeed.

443. You supply a clientèle which it pays them to deal with?—Yes.

444. And you do a very useful class of work?—We obtain a class of customer which they have not catered for. In the case of Belmullet, 40 miles from Ballina—all that vast area there—the small farmers could formerly only get a loan by going to a local trader or the parish priest and asking him to be a surety, and sometimes they do not like doing that.

445. It is a fundamental principle of the system you have explained to us that each of your banks should be small?—Yes.

446. To consist of merely the people in the neighbourhood?—Yes.

447. The criterion being that every member is acquainted with the other?—With every other member.

448. And acquainted with his circumstances?—Yes.

449. It is also essential that if a loan is granted it should be seen that the loan is spent upon the purpose for which it is granted?—Yes.

450. If that be the case, if your bank is small and your society is small, consisting of, say, 50 and not more than 100 people, is it not essential for the success of your scheme that you should have a central institution in which the surplus of such a bank could be deposited for the purpose of financing the necessities of the smaller banks?—I would not like to give any opinion upon the

Lord MacDonnell—continued.

question of a central bank, from an Irish point of view, at present. I do not wish to arouse the hostility of larger banks by suggesting such a thing, as long as they treat us as fairly as they have treated us at present.

451. But would you arouse their hostility if you restricted your operations in the central institution to the reception of surplus deposits from banks?—No, I do not think so at all.

452. The criterion being that the money must have come from these organisations, and that it is to be spent upon these organisations—that is what you mean?—Yes.

Lord Welby.

453. That object would be attained if you eliminated the name "bank"?—Yes, it would.

Lord MacDonnell.

454. Would not you say it is a highly desirable object that all these banks should finance themselves, and should not look to capitalists or the State for the capital with which to carry on their business?—I certainly would prefer to see local money used in the societies, rather than either the joint stock banks money or the State money. When I organised them I advised them first of all to try and get local deposits, and if that failed to try and get an overdraft from a neighbouring bank, if there was one, and in the very last resort if necessary to appeal to the Congested Districts Board, or the Department, for a small loan at the beginning.

455. Would not you say that the success of these banks as co-operative banks might be measured by their independence of State control altogether?—Do you mean State control or State aid?

456. State aid?—I think so. I would like to see the banks without any Government aid whatever with regard to deposits. But it may be necessary in the very poor districts, such as we have in Ireland, to get some aid of that kind.

457. Would not you think, having regard to the great advantages that these small credit societies confer upon the country, that such assistance as bearing the cost of audit, by an independent auditor, of these various societies is very little to ask from the administration of the country?—I think it is very little; but I would like to see these societies absolutely independent of State aid, and that any aid given at the present time to these associations should be with the distinct object of finally enabling them to become independent. There is a great deal too much paternalism in Ireland.

458. Do you think the employment of a State auditor would confirm the members of the banks in their belief in the stability of the banks?—The auditors in Ireland at present are public auditors appointed by the Treasury because, as I understand, they have received information that these men are reliable auditors. What you refer to is secured at present by the fact that I should say 95 per cent. of these societies employ these public auditors who are nominated by the Treasury.

459. But

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Lord MacDonnell—continued.

459. But they have to pay for them?—They have to pay for them.

460. And that is one of the reasons by which you justify the creation of these central institutions in order that they may get money to defray the expenses of audit. My question is, Having regard to the great advantages that these small banks do confer on the country, is it not reasonable to expect that the State would give gratis the services of these auditors for the purpose of auditing?—I think it might be expected.

461. In regard to the powers of trading, do you think that if you were to get the powers of trading (if you do not possess them already) you would thereby create any hostility amongst the small trading communities in the country towns in Ireland?—Yes, decidedly.

462. Has there been any hostility created amongst them at present?—They have roused up the whole country, and they have practically captured the Irish Members of Parliament.

463. Did the hostility arise locally? Did it arise from any fact of your competition having deprived them of custom?—It was fed from a great many sources. The opposition to agricultural co-operation in Ireland sprang first from the butter merchants who dominated the local markets. We organise the farmers in dairy societies, and these dairy societies deal directly with merchants and wholesalers in England. That means that the local butter merchants who bought their few pounds of butter from the farmers before the centralising system came in found their business lost; they raised a wail in the local papers by writing letters, signed "Pro bono publico," and so on, pointing out how disastrous this co-operative movement was, and how it was destroying certain trading interests. That was one source. Another source of opposition were the local egg buyers, who are called higglers. We interfered with their business when we organised the farmers in poultry societies, and they also sold directly without the intervention of half a dozen middle men. These egg buyers raised a wail in the local papers. The gombeen men, when they found they could not lend money at from 25 to 60 per cent., also wrote letters to the papers. This gave the impression of a mass movement of popular feeling directed against the co-operative societies, but that opposition is fading out. One must expect, when creating a new social order in a country, that there will be interests which will raise a commotion which will gradually fade away. I do not think it would be possible now in Ireland to raise any popular movement against the co-operative societies such as was raised some few years ago, and which captured the Irish Members of Parliament.

Chairman.

464. Such as was raised in England many years ago?—Yes; I think that is impossible now.

Lord Northcote.

465. I think you said that one of the difficulties in the way of paying any secretary was that

(0.7.)

Lord Northcote—continued.

these small banks pay so very high a rate of interest on deposits that they have very little profits available as a result?—Yes.

466. They pay 3 or 4 per cent?—Three-and-a-half per cent. usually, 4 per cent. sometimes, but that leaves a very small margin for paying the cost of books and stamps for notices and the hire of a room. If a society starts with £100 capital, and is paying 3½ per cent., the difference between that and 5 per cent. is very small, and even if it gets up to £200, £300, or £500 capital, there is a very small margin, and the most they can make is £2 or £3 profit in the year after paying expenses, which means a very small amount to reserve fund. If they get up to £1,000 capital, as a few of them have got, then the margin is greater. We are anxious in the case of these very small societies in outlying districts to have one person in each society who will be subject to orders as a paid servant and who must do as he is told.

467. I think you said the joint-stock banks only allow 1 or 1½ per cent. interest on deposits?—They vary from 1 to 1½ per cent. according to the length of time, and I never heard of an ordinary depositor getting more than 2 per cent.

468. Why do you pay so large a rate of interest on deposits?—Because it is necessary to attract them from the Post Office Savings Bank. We want local money employed locally, circulating and producing more good in the district, instead of going completely away from it.

469. I think, in answer to a question by Lord Cromer, when he asked you to tell him something about the average capital of these small banks, you mentioned one of them as low as £3?—That is simply the beginning—the first deposit received.

470. Could you give any kind of average that they run to in the amount of capital, roughly?—This sheet I have here gives it. The first one is loan capital, £84; deposits, £242; the next is loan capital, £622; deposits, £70; the next is loan capital, £151 (that is, borrowed from banks), and £197 deposits; the next is £351 of loan capital, and £10 deposits.

471. You said that if a squire or local capitalist was nervous as to the amount of responsibility he might be let in for under unlimited liability, he could—and in some cases, I understand, did—give them a certain sum to help them to start?—He lends it to them not as a member, and gets interest on it higher than at a local bank, if the money were lying there.

472. Then I suppose the credit of one of these small banks, without the local central bank, would be considerably affected by the question whether the squire or local capitalist was a subscriber to the association or not?—Yes, that certainly is so. We have found that in the case of a person like a local landowner, or some person of local repute, that the joint stock bank was much more friendly to the association, and had not to be convinced that it was safe to lend to it the moment they saw his name; but where the members are simply very small farmers, who are perhaps 14 or 20 miles from the town where their branch operates, it takes a considerable amount of argument to convince the bank that it

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Lord Northcote—continued.

is safe to lend to the society. But the directors of the banks in Dublin, whom we approached, passed a resolution some years ago that they would lend to these associations at 4 per cent. on overdraft, or in the case of the Bank of Ireland at 1 per cent. over the ordinary bank rate, so when branches write up to their central bank they are told to lend if it is at all safe to do so.

473. Have there been many cases where the local banks have declined to lend, not being satisfied with the security?—Yes, there have.

474. Many cases?—I know of three or four cases where they have refused, and I think quite rightly, because sometimes, when I have gone as organiser, I have been dissatisfied with the character of the people, and after registering such a society I have advised public boards not to lend them money, because I would rather risk failure to start a society than see a society fail having once started.

Lord Welby.

475. I think you spoke at the beginning of your evidence of there having been some 268 agricultural societies?—Credit societies? I mentioned several kinds of societies—co-operative dairy societies, agricultural societies, credit societies and poultry societies.

476. The societies I alluded to were the 268 agricultural credit societies, with a membership of 17,403 and a turnover of £56,000?—Those are the societies we are referring to.

477. And they have been in operation for some little time?—About 10 or 12 years. The oldest, I think, is about 12 years old.

478. Have there been any losses in the operations of these societies?—The only losses I have heard of were the losses referred to by the Vice-President of the Department—at present Mr. T. W. Russell—who said that he had to write off as bad some money lent to these societies. At present we are having a rather bitter controversy with Mr. Russell over that point. The Organisation Society I represent organised these associations, and for years guided them and advised the Department and the Congested Districts Board in respect of loans to them. When Mr. T. W. Russell came there as Vice-President he stopped the official relations which once existed between the Organisation Society and the Department, and we were unable to gather any information about any action the Department was taking. We lately became aware that Mr. T. W. Russell said, at a meeting of the Congested Districts Board, that these societies were not doing very well, and that he had to take proceedings against some of them, and some £500 he had written off as bad. We asked him for information, and he refused absolutely to give to our society any information whatever about the societies he was referring to. So it becomes very difficult for me to say anything about that when he declares that he has written off as bad sum of money lent to certain societies of which we have no knowledge, and he refused to give the names even. I think it is quite an extraordinary way of conducting a Government Department,

Lord Welby—continued.

for the head of it to refuse to a strong farmers' organisation information about certain associations which we believe we could have helped very much. We feel more concerned about it because there was nobody in the Department of Agriculture who had any knowledge of the principles of this co-operative credit. I think myself that it is extremely unlikely that he would have found any association of 100 farmers who would not be able to pay the £50 or £100 lent by the Department, and to write the money off as lost seems to me a scandalous waste of public money when he did not ask the association which organised these societies to do what it could first of all to ensure the money being repaid. I do not like to suggest that it is an attempt to discredit a political opponent's work, but the fact that he refused absolutely to have any courteous correspondence even with the Organisation Society, which has organised 1,000 associations of farmers in Ireland, having 100,000 members in them at the present time, seems to me an astonishing thing. It has caused us a considerable amount of anxiety to try to get this information so that we may examine into it ourselves, and see to what extent his criticism was justified. I do not myself believe it was justified, and I do not myself believe that the money could not have been recovered if he had asked the body which organised these societies to intervene, as had been done before he came into the Department.

479. Without entering upon the polemics of this question, it is the case that such things as losses have been known?—Not until Mr. T. W. Russell announced it. We have lent over a quarter of a million in these small societies since the start. No joint-stock bank and no depositors have ever complained to us, nor have we heard of any loss, and it is never shown in the balance-sheets of the associations. It came as a thunderbolt to us that Mr. T. W. Russell should make this announcement that he had written off £500 or £600 as bad, without acquainting us; and he announced this to discredit the societies. We asked him for the names of these associations, so that we might be able to make investigation, and he refused to give the information, so I am in a difficulty in replying to your question.

480. May I put it that you have learnt through Mr. T. W. Russell that there have been losses, but you are not personally aware of those cases yourself?—I am not aware of them, nor do I believe that he was justified, from my knowledge of these societies, in writing off any debt of any society as bad without first acquainting us with it. We, as organisers, know personally the committees and members, and have been among them. If a letter is written from the Government Department asking for the return of the money without acquainting us, and then the society make some difficulty or plead for time, there is nobody there to understand the circumstances. I think myself the trouble arises in this way: that when the Department lends money to these societies these lent it out again to their members. The loans may be for 6, 7, 9, or 12 months. Some-

times,

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Mr. GEORGE RUSSELL.

[Continued.]

Lord Welby—continued.

times, if the Department asks for the return of the money in three or four months, they would naturally ask for time, because they have lent out money for a year in some cases, and would not be able to repay it. If we had been there we would have examined the books, and advised at what times certain sums could be repaid. We might say: "They can pay £15 in a month, £20 in three months, and complete the thing in a year." I feel very irritated myself, as a person responsible for the rules of the associations in Ireland, and as first organiser, that information should be refused, which would enable us to see for ourselves the grounds for making this assertion. It places me in an awkward position, and therefore I cannot answer your question.

481. The Bill contains provisions as to the reserve fund, and, if I understand it rightly, that reserve fund is only available under Sub-Section (L), Clause 2, which says, "that the reserve fund so constituted as aforesaid shall not be available for making good any trade deficiency, except to such extent as the other assets of the bank may be insufficient." Do I understand from that that the money going to the reserve fund is only applicable to the expenses which, if not met, will affect the solvency of the bank? I do not see any provision there for an other use of the money when it gets into the reserve fund?—This Bill contemplates two branches of the societies' work. In the first branch, which is the lending of money, automatically by the previous Acts all the profits made go to a reserve fund, and are not divided. There is a clause in this Bill which provides that if they get the new powers any surplus derived from such trading shall be distributed.

482. You have commented on that; but I want to find out what is done with the reserve fund. As I read the Bill the reserve fund is only available for expenses?—If a member and his sureties fail to pay the loan the reserve fund could be utilised by the vote of the committee for this purpose, or they might make a call upon the members generally of 6d. apiece to pay the deficit.

483. The only place at the present moment to which the profits can go is the reserve fund?—Yes.

484. And that reserve fund is not available for any expenses that may be incurred by the bank?—The reserve fund is made after payment of expenses, stamps, stationery, and a little for lighting a schoolroom once a fortnight when the committee meet. Those expenses have to be met before profits go to reserve fund.

485. But you cannot pay a secretary from that fund?—That would be considered as an expense, but my difficulty is that they cannot make sufficient profits at present to pay him.

486. I only want to find out whether it is intended that the reserve fund should, as to any portion of it, be available to meet any necessary expenses?—Yes, certainly.

487. But it is not put in the Bill?—No, but it is implied in the Acts, and it is not necessary to put it there.

Chairman.

488. You mean there can be no reserve fund until the expenses have been disbursed?—Yes.

Lord Welby.

489. And those expenses might include the expenses of a secretary?—Yes.

490. You spoke of desiring to make further profits, and I want to know where those profits go to. I understand they go to reserve fund; but I gather from you now they would go into reserve fund subject to any previous proper expenses having been paid?—Certainly.

491. You also mentioned, in answer to the question put to you about the length of loan—and I was rather surprised to hear it—that some of those loans are made for a month or two or three months?—The length of time is determined by the purposes of the loan. If a man is borrowing money to get young pigs it may be six or seven months before he will be able to sell them in the fair and repay the bank. If he is buying a cow he will be getting a cheque from the neighbouring creamery for his milk every month, and he will pay back by instalments of £1 a month, or something like that. The little banks meet the convenience of the borrower in every way. In the case of a loan of £5 for two months only that would probably mean he wants to hold over the sale of his stock for a better fair. They sometimes get rings of dealers at a fair, and the farmers simply bring back their calves or pigs and refuse to sell them. They are often helped to hold the sale over until another fair, because the Committee of Management know it is necessary they should do that rather than lose the money.

492. The time of the loan is proportioned to the object?—Yes. I have known the committees lengthen the term or shorten it. In the case of the last, I was at, at Armagh, there were several applications for loans. One asked for a loan for seven months. They said, "He could not pay us back in seven months; we will give it for nine, because we know he would not have his beasts ready until such and such a fair in November." Another who asked for nine months they cut down to seven because they knew he could repay in that time. I have seen that they keep strict control over the purpose of the loan and application of the money.

493. I was rather struck by one piece of evidence you gave. You spoke of an arrangement made by the Bank of Ireland, in which it actually advanced money to a small body of agricultural labourers?—Yes.

494. Did these agricultural labourers form a small society and go to the Bank of Ireland, and did the Bank of Ireland lend to them direct upon their own security?—Yes, it was at Lattin, in County Tipperary. Of course at the beginning it was guaranteed to some extent by a local landlord, but he wanted to educate the Bank of Ireland to see these people were doing their business properly, and said he would stand by them, and after a while the Bank made no difficulty of increasing the over-draft without going to this local gentleman at all.

495. But there was this security at first?—Yes.

496. You

15 June 1910.

Mr. JAMES DUNCAN STUART SIM, called in; and Examined.

*Chairman.*

496. You are the Chief Registrar under the Friendly Societies Act?—That is so.

497. That is the Act under which the legislation proposed in this Bill is to be introduced?—Yes.

498. Will you tell us, as shortly as you can, what your objections to this Bill are?—I could hand in my report on the Bill of 1908, and my report on the Bill of 1910. They may be useful to the Committee, and it practically is my evidence.

499. I have had the advantage of looking at these, I think, but the copies I had were not legible. There is one dated the 8th May, 1908?—That was on the Bill of 1908 which was introduced into the House of Lords by Lord Wenlock. The next is the Memorandum on the Bill introduced by Lord Shaftesbury this year.

500. What is the date of this Memorandum?—April of this year. It was rather sprung upon us, and we had to make the Memorandum as quickly as we could for the use of the Government.

501. Will you have the Memorandum copied and supply the other members of the Committee with copies of it?—Yes.

502. Will you tell us shortly your objections to the Bill?—Although one has every sympathy with the idea of establishing these small credit banks in different parts of the country, to my mind the question is whether this particular Bill will do that satisfactorily, and also whether what is proposed to be done by this Bill cannot be done already by existing legislation. Everything in this Bill can be done under the Friendly Societies Act under special authority except the principle of granting a certificate of incorporation. That cannot be done, because the Friendly Societies Act does not recognise that. Everything in the Bill can be done under the Industrial and Provident Societies Act with the single exception of the unlimited liability.

503. We have been told by both the witnesses we have heard—Mr. Wolff and Mr. G. Russell—that if provision can be made for incorporation plus unlimited liability, all the objects that they desire will be reached. Can you tell us if there is any objection to a Bill which will incorporate these banks and will at the same time give the unlimited liability which is desired?—The principle of incorporating societies of this kind was considered very carefully by the Royal Commission over which Sir Stafford Northcote presided, and which reported in 1874, after hearing evidence and carefully deliberating that co-operative societies should be under a separate Act from friendly societies. Before that they were under the same Acts. That was their deliberate policy, and it was carried out by the Industrial and Provident Societies Act, 1876, and the Friendly Societies Act, 1875. The two things were completely separated, and the principle with regard to co-operative societies is that they are incorporated and act under their own seal, whereas a friendly society has to act

*Chairman—continued.*

by trustees. There are certain parts of this Bill which seem to confuse the two things together. In one clause of the Bill a registered society is spoken of as one to be incorporated. Now before it can be registered under the principal Act, which is defined in the definition clause as the Friendly Societies Act, there must be trustees, and there are no trustees in this Act. There are no arrangements for the administration of the Act. It would be very difficult to administer, in my opinion. It is a mixture of the two Acts. I think really the principal objection to it is that it does not seem to me to be necessary. Under the Borrowing Powers Act, called Sir Horace Plunkett's Act, there is unlimited liability\* under a special authority—that is to say, friendly societies, if they are specially authorised societies, may borrow from persons other than their own members. That was a new principle adopted then, and there are a large number of agricultural credit societies which have been established under that special authority which are practically banks, though we do not allow them to call themselves banks. They are increasing every day. The whole thing is in its experimental stage, but I hope it may succeed. They deal with very small areas—simply a village, or a village and the surrounding districts, or perhaps a couple of villages close together—where everybody knows something about everybody else, and a great many of the people who get the advance of money have no security whatever to give, and the money is advanced simply on the character of the individual. I am told they have never had a loss yet. Those societies are all over the country, and are worked by the Agricultural Organisation Society, which does a number of other things. Then the co-operative societies are now establishing in every co-operative society a branch bank. You can hardly call it banking; it is really a sort of deposit account with the different customers, as they have, for instance, at the Army and Navy and all big stores, in order that a customer, instead of having to pay, may write an order and draw on his deposit in the bank to pay for the goods. But in the case of the co-operative societies the banking business is most carefully safeguarded in the Act. All sorts of notices have to be put up, and all sorts of things done.

504. Are you talking about hanging up a balance-sheet?—Yes, they have to hang up a balance-sheet, and there are certain regulations.

505. That is provided for in this Bill?—Yes; but this is very clearly defined in Section 19 of the Co-operative Societies Act. I have passed rules that they shall not carry on a banking business together with a trading business in the same place.

506. You think the two must be carried on separately?—That has always been our policy in my Department.

507. It has been suggested by Mr. George Russell that that is undesirable?—We have always thought it extremely desirable not to mix up the two things.

508. One

\* These statements should be read in conjunction with the explanations given by Mr. Barlow.



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Mr. SIM.

[Continued.]

*Chairman—continued.*

508. One reason that Mr. Russell gives is that it is difficult to obtain two different boards (if that is the right expression) for the two businesses in the small district in which the society is to operate?—It is all managed by one committee of management, but the banking business is carried on apart from the trading business in a separate part of the building, and not mixed up with the other, and they have to keep separate accounts of it, so that one may know how much the banking business is doing and how much the trading business, and not mix the two up together.

509. Your view, as I understand, is the same as Mr. Russell's and Mr. Wolff's, namely, that if there is legislation providing unlimited liability and legislation providing for incorporation in place of trustees, everything that this Bill aims at will be possible under the existing law?—Yes. Trading is carried on by the co-operative societies as well as banking, and unlimited liability\* is afforded under the Friendly Societies Act.

*Earl of Shaftesbury.*

510. Have you any objection to the principle of unlimited liability being introduced by amendment into the Industrial and Provident Societies Act?—There is a Bill which is coming on, probably this Session, which has been taken up by the Government, I understand, and I have had that before me several times. In that Bill they provided first of all for unlimited liability.\*

*Chairman.*

511. Can you tell me on what ground they objected?—I cannot tell you at all, but I think on the ground that it might be dangerous.

512. Sir George Murray can tell us that?—I cannot say. I am sure I do not know. It came to me through the co-operative societies themselves.

*Earl of Cromer.*

513. Do you see any objection to it?—No. I do not see any objection to it if it is properly safeguarded, but I think the general policy for some time has been against unlimited liability.

*Chairman.*

514. Mr. Wolff pointed out a reason, which certainly seems to me to be a good one, for the unlimited liability, and that is this, that it would make the people connected with the concern very careful, they would know that their liability was involved for every liability that they incurred on behalf of the society, and would be very careful about the people to whom they lent money, and the purpose for which they lent it. Do you think there is much in that?—I do not know. I think people would be very cautious about going into any concern with unlimited liability\* where one person might have to pay the whole of the deficiency.

*Chairman—continued.*

That would be the great danger in preventing people from joining. They join the agricultural credit societies because of the smallness of them, and they know all about everybody and about every person before they advance any money. In anything like a large concern I should think the unlimited liability would deter people from joining it altogether.

*Earl of Cromer.*

515. But I understand these are proposed to be very small concerns?—Yes, but there is no definition with regard to that. I understand that is intended, but there is nothing to show what it is.

*Earl of Shaftesbury.*

516. Admitting that the simplest way to bring about what this Bill seeks is by an amendment of the Industrial and Provident Societies Act, which would admit of unlimited liability, but supposing the Treasury objections were too powerful, can you suggest any other way of providing these credit societies with trading powers than the manner in which it is done in this Bill?—No, I do not think you can get unlimited liability\* now into the Industrial and Provident Societies Bill which is going to come before the House unless you can get over the objections of the Treasury. If you have done that, you have done the whole thing. But there is another method which I suggested some time ago to Sir Horace Plunkett in the Friendly Societies Borrowing Powers Act. By applying it to co-operative societies you get exactly the same thing as you have here—unlimited liability\* in co-operative societies. That would be a very small amendment indeed, supposing the Government approve of it.

*Chairman.*

517. What do you say the amendment ought to be?—The borrowing powers Act applies only to specially authorised societies under what is called in this Bill the principal Act—the Friendly Societies Act. If that borrowing powers Act were to apply to co-operative societies as well as to specially authorised societies you get the principle of unlimited liability\* then in a co-operative society, and that is what the co-operative societies wanted.

518. The co-operative societies being created under the Industrial and Provident Societies Act?—Yes. They want unlimited liability, but under a certain amount of pressure they have dropped it now. Still that is what they want.

*Lord Welby.*

519. What is the nature of the Bill which the Treasury objected to?—It is an amendment of the Industrial and Provident Societies Act of 1893.

520. With what object?—One object is to have greater power given to my office to punish offenders. They are very much disgusted at the number of fraudulent societies there are. We do our best to check it, but it is very difficult

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\* These statements should be read in conjunction with the explanations given by Mr. Barlow.



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Mr. SIM.

[Continued.]

Lord Welby—continued.

to check, and they want the Chief Registrar to have more drastic powers in dealing with these people. Another very important object originally was to have unlimited liability\* and various other things of a more or less administrative nature with regard to the joining together of societies and things of that kind. It has been watered down since it first saw the light, and now it is not a very big Bill.

521. Has it been brought in?—Not yet.

Lord Welby—continued.

522. The Treasury objected before introduction?—I think Mr. Hobhouse is going to bring it in, but it is only to be brought in if non-contentious.

Earl of Shaftesbury.

523. It is a Government Bill?—It will be, but it is not yet.

524. To be brought in on the condition that it is non-contentious?—Yes, that is the point.

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*Die Lunæ, 20<sup>o</sup> Junii, 1910.*

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## LORDS PRESENT.

Earl of CROMER.  
Lord HERSHELL.  
Lord WELBY.

Lord NORTHCOTE.  
Lord MACDONNELL.  
Lord MERSEY.

The LORD MERSEY IN THE CHAIR.

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THE RIGHT HONOURABLE THOMAS WALLACE RUSSELL is called in; and Examined as follows:—

*Witness.]* My Lord, of course, this *précis* of my evidence is supplied at your request. I am Vice-President of the Department of Agriculture and Technical Instruction in Ireland, and have held that office for a little over three years. The relations of the Department with Irish credit societies and Irish agricultural banks consist solely in having lent money to 170 of these institutions. The total amount lent was a little over £17,800. The policy of lending money for this purpose was that of my predecessor in office. I inherited it, and not being quite satisfied with the system I have done little or nothing to extend it. The question as to the position of these banks was recently raised at a meeting of the Agricultural Board, the object being to discuss whether it would not be possible to put the system of agricultural credit, with which some of the members were dissatisfied, upon a better and sounder basis. I undertook at that meeting, at the request of the Board, to have an inquiry made by an inspector into all the banks who owed money to the Department. This inquiry occupied some three or four months, and the report was presented a few weeks ago. One hundred and eight banks were inspected; 26 were reported as "satisfactory," 36 as "fair," and 46 as "unsatisfactory." I shall later on explain to your Lordships what the inspector meant by these

terms. During the years the Department has been in existence it has been found necessary to recover in 15 cases, that is to say, up to the date of the inspection, through the medium of the Chief Crown Solicitor, the balance of loans amounting to £1,375. The Department has also called up, for what the inspector calls "various reasons," the sum of £1,236, and the inspector's report further declares the sum of £600 as being "bad or doubtful." So far as my knowledge of certain of these banks classed in the latter category goes, I think much, if not the whole, of this sum is likely to turn out "bad," although Mr. George Russell's statement to this Committee that it has been written off is not founded upon anything that I have ever said. As a matter of fact, it has not been written off, and I do not intend to relax my efforts to recover the money, although, as I say, I have very little hope of being able to do much in these special cases. Roughly speaking, that is the position in regard to the agricultural banks and credit societies who owe money to the Department. I have no knowledge, personal or otherwise, of any other credit banks or credit societies. I have stated that the Department had lent money to 170 banks, and your Lordships will see from this statement that only 108 were reported upon by the inspector.

525. Might

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\* This statement should be read in conjunction with the explanations given by Mr. Barlow.

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[Continued.]

*Lord Northcote.*

525. Might I ask whether the report was communicated to the banks, or made public in any way?—No, my Lord, it is a report to the Department; it will be considered on the 30th of this month by the Board itself, and it was circulated amongst the members of the Congested Districts Board at their own request and some others. It has not been communicated to the banks. The difference in the figure arises, first, from the fact that the banks that had been proceeded against by one process or another and had paid up their loans have to be subtracted from the total number, and, secondly, some banks had, without pressure of any kind, paid their debt, and had therefore ceased to have any connection with the Department. This leaves only a balance of seven to be accounted for; two (one in County Cavan and the other in County Londonderry) were not reported on from lack of time; two others (one in Galway and the other in Cavan) declined to allow the inspector to examine their books; two others had during the time of the inspection been referred to the Chief Crown Solicitor to recover the loans, and one bank had ceased working.

*Earl of Cromer.*

526. Has not the Department legal power to examine the books, or is it a voluntary act on the part of the banks?—I very much doubt whether we have, my Lord, the power, but it was very easily settled in those two cases; one, in County Galway, paid up the loan at once.

527. But you said some refused to allow the books to be examined?—Two; one has paid up the loan since, and therefore we have nothing further to do with it; the other has been notified that the period of the loan expires on the 1st of August, and that they must pay it up then. I do not think we have any legal power.

*Chairman.*

528. If I may say so, I do not believe you have any legal right whatever to examine their books, and therefore those banks that refused to allow you to do so were standing upon their rights?—Yes; but in that case, my Lord, of course, the Department would certainly exercise its rights.

529. Quite; you were quite justified in asking, but they were also justified in refusing?—I quite agree. We put no pressure upon them in any way whatever.

*Lord MacDonnell.*

530. May I take it that the refusal to allow inspection was only made by two banks altogether?—Yes, my Lord, out of the 108, that is so.

*Earl of Cromer.*

531. And one of those paid up, apparently?—Paid up at once. These figures will, I think, place the Committee in a position to realise the exact nature of the Department's  
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*Earl of Cromer—continued.*

relations towards these credit societies. We have simply lent money to banks that have been formed by another organisation. We have taken the best security for the loan that could be found in the districts; we have rarely sought to call up the money unless under special or urgent and pressing circumstances, and we have no intention of acting in any other way now.

*Chairman.*

532. Now, might I interrupt you for a moment? You say you have taken the best obtainable security. What is the character of it?—On every bond there are the names of two men and the secretary, and we naturally seek to find the best men that we can as security for the money.

533. Do these men enter into personal obligations to you for the payment of the money?—They do.

*Lord MacDonnell.*

534. May I continue on that? You take the security from two men and the secretary?—Yes.

535. Those two men, I presume, would be members of the Managing Committee?—Quite so.

536. In accordance with the rules of the bank, are not all the members of the bank responsible for those two men and for their secretary? Is it not a joint and several responsibility?—That may be legally so, but the idea of a Government Department seeking to recover from all these small people a loan of this kind is a thing that, speaking for the Department—

537. I only asked the question?—I believe it is an unlimited concern.

538. A joint and several liability?—If you once admit that the entire bank, composed of 50, 70, or 100 members, are jointly and severally liable for the money which you gave to the trustees, these two men and the secretary, would it be open to the Department, if they desired to recover, to come down on the wealthiest member of the whole banking community?—The definition of the wealthiest member would not give us much encouragement to go on.

539. Your advances are small, I understand?—£100, £150, £250.

540. That is to the entire bank?—Yes.

541. Out of 100 people, farmers such as we have in the West of Ireland, especially since farmers have bought their holdings and are in the way of buying their holding, would there not be a perfectly adequate security amongst the 100 members of the banking community, each of whom have holdings which are very valuable in the market?—What I have to say in reply to that is that the liability is there undoubtedly, and in my discretion, as head of the Department—

*Chairman.*] I do not agree with you, Mr. Russell. There is no unlimited liability at present; it is one of the things which the sup-

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Right Hon. T. W. RUSSELL.

[Continued.]

porters of this scheme, which is embodied in this Act of Parliament, wish to obtain.

*Lord MacDonnell.*] As the banks are constituted, they are constituted by agreement on the basis of unlimited liability.

*Chairman.*] I do not know these banks at all; I only know banks registered under the Industrial and Provident Societies Act.

*Witness.*] Perhaps you will allow me to say this, my Lord? Even assuming that every borrowing member of the bank, every member of the bank, is liable, in my discretion, if I had to consider whether I should sue 100 people belonging to a district in the West of Ireland—

542. That is not the point. The question is, would you sue one, and the one the best one in the bank?—As a matter of fact, and as a matter of practice, we sue the two men whose names are on the bond and the secretary.

543. And you take care, as I understand, to get what you believe to be the two best names out of the lot?—Yes.

*Lord MacDonnell.*

544. Just one more question. Have you made any advances since you became head of the Department, or are these the advances which you took over from your predecessor?—I have made very few.

*Chairman.*

545. Have you made any?—Yes, I have.

546. To what amount?—I should say, perhaps, £2,000 would cover them; I formed a bank in Castlereagh.

547. That is £2,000 over a period of three years?—I will not bind myself to the exact sum; I am merely giving an idea. I did form a bank in Castlereagh, and lent £1,000, and I did it on the security of two men who could pay £1,000 to-morrow.

*Lord Northcote.*

548. You consider, do you not, that as a Department your responsibility will end with the two men and the secretary—that you would not take any action, but you would leave those two men to deal with the other members of the bank?—That has been the practice all through.

*Lord Welby.*

549. Why do you put in the secretary? As I understand, you choose the two most capable men, and the addition of the secretary, seems to me to imply that you are acknowledging, if I may say so, the responsibility of the whole body; it does not at all follow that the secretary need be a person capable of answering for much, and I am rather puzzled to know why the secretary should be put in?—I have never altered the practice; that was the practice when I went to the Department. I have done very little myself in this matter, and I have taken the system just as it stood.

*Lord MacDonnell.*

550. Just one other question. You say you

*Lord MacDonnell—continued.*

have taken two men; are those the two men who were members of the committee, or did you specify the two men whom you desired to have as security, or did you take the men who happened to be in office at the time?—We took the two most responsible men on the committee.

551. Did you choose them from the committee by actual choice, or did you take the men who happened to be conducting the work of the committee?—I sent up a minute to the inspector on Friday on that very point. "Against whom do we proceed? Is there any special rule in this case?" The answer I received was: "Two members of committee, with secretary."

552. Then it does not follow from that, does it, that you actually selected the two men with whom you desired to deal, but that you took the men who happened to be the managing committee of the bank at that particular time?—Certainly; we did not go outside the bank, to my knowledge.

553. That is to say, you did not select, but you took the men who desired to take the loan; you had an application for a loan from two members of the committee and the secretary, and you took them?—No, that is not quite the way.

*Chairman.*

554. That does not appear to me to be the business of the thing at all?—I do not think that is the case.

555. The application would come from the bank, not from any members of the committee?—Certainly.

556. From the bank itself?—Yes.

557. I do not know how many men there are on a committee; there may be more than two for aught I know, but the application comes from the bank itself?—That is so.

558. And in the name of the bank, I presume, signed by the secretary, and then having got an application from the bank, you say: "We want personal security," and then in some way or another, either by selection or by their tendering themselves, you get the names of two committeemen?

*Lord MacDonnell.*] I do not think that is the case. There are trustees for each of these banks; two trustees, as a rule, and the secretary; the application comes from the trustees who happen to be members of the committee. The application is made to the Department, and the Department acts upon that application which comes from the bank and in the name of the trustees.

*Chairman.*] It may come from the bank in the name of the trustees, but what I mean is that it comes from the bank; it does not come from personal application.

*Witness.*] Quite so.

*Lord MacDonnell.*

559. My point was to bring out from Mr. Russell whether there was any actual selection by the Department or whether the Department did not respond to the application made by the bank

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Right Hon. T. W. RUSSELL.

[Continued.]

*Lord MacDonnell*—continued.

bank in the form in which it was made?—My belief is this—that the Inspector —

560. I want to know your knowledge?—I go no further than that; I have put it as far as I can go from personal knowledge. I have already informed the Committee that I have not pushed this question of banking at all.

*Chairman.*

561. I understand you have had very few transactions personally?—I cannot recall more than three or four at the present time. My views as to agricultural credit in Ireland are of a mixed character. I think, in view of the great changes that are taking place in Ireland under the Land Acts and under the work of the Department, and the Congested Districts Board, a system of agricultural credit, founded upon proper business principles, is capable of conferring very considerable advantages upon the Irish peasantry. Large numbers of men are being removed from uneconomic to what are called "economic holdings"—(that is a Parliamentary term). They are being removed under circumstances of great difficulty, and in most cases, or rather perhaps it is better to qualify it and say in many cases, they are devoid of capital.

*Earl of Cromer.*

562. Pardon me asking, what is an "uneconomic holding"?—An uneconomic holding is a holding held by a man consisting perhaps of five or six acres of bog land or of stony land. One of the objects of the Land Acts has been to remove these holders of land from what is technically called an uneconomic holding to a larger holding made up of grass and other lands to, it may be, 30 acres.

*Chairman.*

563. By an uneconomic holding you mean a holding which is so small and the circumstances attending which are so cramped that it cannot be made to pay?—They cannot live on it.

*Lord MacDonnell.*

564. Would not you say that under the late Land Act an uneconomic holding is a holding of £7 valuation; it was proposed in the draft Bill that it should be a holding of £10 rateable value, but the Land Act as finally modified reduced the £10 to £7?—As a matter of fact, I know of my own knowledge hundreds of cases where men have been removed from these small holdings to holdings of 20, 25, 30 and even 40 acres of land; that is called an economic holding. I have never been able to understand why that limit should have been placed. I represented a tenant-farmer constituency for 25 years in the House of Commons, and I venture to say that one half of my constituents were men who had brought up families in a respectable way of life with 10 to 15 acres of land.

*Lord Northcote.*

565. It all depends upon the quality of the land, I suppose?—Much depends upon the (0.7.)

*Lord Northcote*—continued.

quality of the land, but in Ulster the land is not so very good; it depends also upon the quality of the man.

*Chairman.*

566. I should think it depends a great deal upon the character of the man?—In regard to the explanation sought for by Lord Cromer, I think I have made it perfectly clear what I mean.

567. The best man in the world cannot make a stone grow wheat, I suppose?

*Earl of Cromer.*

568. Your argument is that under the Land Act there is at present going on a considerable transfer from holdings that do not pay to holdings that will pay—that is to say, from uneconomic to economic holdings?—If properly worked.

*Lord Welby.*

569. And where there is very little capital with the transferred man, I suppose?—Precisely; and all over the country the small Irish farmers can, I believe, be made to benefit very materially from a proper system of agricultural credit. That is my individual view, but, on the other hand, I desire to state that a great many people in Ireland, competent judges, see great difficulties in placing—I have the word "unlimited" here, but I shall alter it and say "free facilities," for borrowing money before the people.

*Chairman.*

570. Will you let me interrupt you for a moment? I have never heard it suggested yet that the members of these banks should have unlimited powers of borrowing money; on the contrary?—I say facilities.

571. You altered it, but call it facilities or power, I do not care which it is; on the contrary, this scheme is that the amount of the loan should be strictly limited and should be small. That is the scheme?—What I mean by the phrase I have used is this: A great many people in Ireland, competent judges, see great difficulties in placing these facilities for borrowing money before the people. I do not say I agree, for I do not, but I am merely stating the fact from my own knowledge. It must be remembered that the system of Joint Stock banking is now very widespread in Ireland. You cannot go into an Irish village where you will not find a Branch Joint Stock Bank open either on certain days of the week or on market or fair days. These banks do business with the farmers, and the transactions are not large transactions in the main, but small. Fifty years ago, when I first knew Ireland, very few farmers would have known what a bill of exchange meant. In my judgment far too many of them now have their names on the back of one or two such documents. I have known two great tragedies in the North of Ireland arising from the collapse of private lending—that is to say, Loan Fund institutions; and in the case of the Loan Fund Board for Ireland, which will be quite familiar, I am

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*Chairman*—continued.

sure, to Lord MacDonnell, I would be afraid to say how many efforts have been made in Parliament in my time—

*Lord MacDonnell.*

572. You would not compare the Loan Fund Board system with these, would you?—No; but the point I am on now is the placing of increased facilities before the people, and I am merely wanting to point out to the Committee that those who are hostile to this sort of thing point to the tragedies (because they are little short of tragedies) which have arisen from the collapse of these banks, and the Loan Fund Board has had to be legislated upon over and over again, as Lord MacDonnell knows, and a great deal of money has been lost by poor people.

573. In forming your judgment, would you bear in mind these facts—that these banks postulate first that they shall be small; next, that every member shall be admitted to the bank by the co-option of his fellows; third, that the loans are always to be small; fourth, that they are only to be made for an admitted and realised agricultural necessity; fifth, that each member of the bank sees that the money is spent upon the purpose for which the money is given; and, sixth, that the loans are only made for a short time, and if not applied to the purpose for which they are given they are called up? How can you compare a system like that with a system of Joint Banks?—Will you allow me to point out—

574. I only ask you to bear these points in mind.

*Chairman.*

I understand, if I may interrupt again, that you approve of the system; you are merely pointing out that there is a class of persons in Ireland who do not approve?—The very next sentence will show that. But let me point out to Lord MacDonnell that I am not describing the system of lending under Lord Shaftesbury's Bill; I am describing the system of lending under the bank system which is now in existence, the system which has money from the Department, and I say, and I shall prove immediately, that it is just as far removed from what Lord MacDonnell is describing as it is possible to be.

*Lord MacDonnell.*

575. Have you personally inspected any of these banks?—No.

576. Well, Mr. Russell, I have?—Well, perhaps, my Lord, you will allow me to proceed.

*Earl of Cromer.*

577. As to the tragic consequences of which you speak, did they arise in all cases from the insolvency of the bank, or from the borrower borrowing beyond his means?—The insolvency of the bank—and in some cases the questionable acts of their officers. If I am allowed to proceed, your Lordships will find this all out. I have sought to conceal nothing, and in answer to Lord MacDonnell's point the next sentence in my

*Earl of Cromer*—continued.

proof puts this: "But although I realise the dangers attendant upon undue facilities for borrowing under these circumstances, I am still of opinion that a system of agricultural credit founded on a proper basis and worked on proper business principles might be advantageous to the people." That is my position. I am pleading for business principles in a business transaction and they do not exist at the present moment. My approval of the system of agricultural credit, as will be seen, is entirely founded upon the character of the system; and this brings me to these banks as they exist in Ireland at the present day. Our Inspector divided his classification of these banks under three heads, viz., first "satisfactory," second "fair," and third "unsatisfactory."

*Lord MacDonnell.*

578. Will you tell me the inspector's name?—Mr. Mennel. By the term "satisfactory" he means "that the bank's affairs generally are well managed—that is to say, that the committees appear to do their work well, to meet regularly, and so far as circumstances and their knowledge of affairs permit, endeavour to make the bank a useful local institution; that the secretary's work is well done, minutes of meetings recorded, cash and ledger accounts kept up to date, and bonds and other documents carefully filled and retained." There are 26 such banks out of 108. "'Fair' includes a rather wide range, from banks that are almost unsatisfactory to those which are almost satisfactory, but which, on the whole, tend towards satisfactory rather than unsatisfactory. This class includes many banks" (and I may be allowed to say that I am quoting from the inspector's report verbatim) "not so much because of what they do, as because of what they fail to do. For example, books and documents may be well kept, but the committee may be apathetic and simply drifting along, or the committee may adopt a policy of renewing loans which are regularly paid in, or there may be carelessness as to writing up the books, though the rough materials to do so may be available." There are 36 such banks. "'Unsatisfactory' means that a bank is distinctly unsatisfactory with respect to its management by the committee or the secretary's duties. Generally banks so classed are unsatisfactory in several ways, such as the following: General negligence and apathy of the committee, carelessness and negligence on the part of the secretary, too frequent renewal of loans, allowing loans to become overdue to an unreasonable extent." The inspector goes on to report "that not infrequently illiterates are chosen as committee-men"—a thing which, in his opinion, "should be absolutely prohibited."

*Chairman.*

579. What is meant by "illiterates"?—People who can neither read nor write; they are unable to know what is in the bond or anything else. "Committee-men generally are ignorant of, or insufficiently acquainted with, their duties, many of which are consequently frequently

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*Chairman—continued.*

frequently neglected. At present many committees appear to be very much in the hands of their secretaries. They are often utterly ignorant as to whether their procedure is correct or not, and are quite incapable of ascertaining their financial position. The essential rule which provides that at committee meetings a statement of accounts should be presented by the secretary, showing the loans outstanding, deposits on hand, and moneys received or paid since last meeting, and that the statement shall be checked and signed by two members of the committee, appears to be very generally neglected by the banks inspected. Many committees appear to be very negligent and careless, or indifferent as to providing for the safe and orderly keeping of bank books and documents, as to satisfying themselves that bonds are fully and correctly filled and perfected, as to securing that loans are applied to the purposes for which granted, as to the cancellation of bonds when the loans have been paid off, and as to ensuring that all moneys received by the secretary or treasurer are promptly lodged to the credit of the society's banking account. In several instances portions, sometimes considerable portions, of a bank's loan capital have been retained by the secretary or other persons, the committee being apparently ignorant of the condition of affairs."

*Earl of Cromer.*

580. When you say "retained by the secretary," do you mean fraudulently retained?—Certainly; I am going to prove that.

*Lord MacDonnell.*

581. You impute fraud to these secretaries, not merely carelessness?—I am going to state the facts; I am imputing nothing but what is in the language of the report.

*Chairman.*

582. "Fraudulent" is rather a strong word; "improperly retained"?—Well, my Lord, I have two cases in my mind.

583. I may walk about with another man's five-pound note in my pocket without intending to cheat him a bit?—Very well, I will take your Lordship's opinion of what it is; the first case that I have in my mind is this: We proceeded against a bank; the secretary had retained more than half of the capital for his own purposes.

583\*. What do you mean by "for his own purposes"?—When we came to look after it he could not pay it. I do not know what the Committee would call it.

584. I should call that embezzlement?—Very well, that is perhaps the proper legal term for it. You will find, as I go along, several of these cases I intend to refer to, and for another object altogether, but I do not wish to bring forward these names, and that is one of the reasons I have not given the names of banks to people who have asked them, because I do not wish them to be blazoned abroad: some of these men are in official positions, and they would have to lose their official positions.

*Lord MacDonnell.*

585. It is most necessary to have them brought forward?—I shall bring them forward now.

*Earl of Cromer.*

586. Have there been any cases in which the secretary has brought himself within the terms of the criminal law by his conduct and he has been prosecuted?—There are certain cases certainly, where they have brought themselves within the criminal law; it is my object to recover the money, not to prosecute anybody.

587. There have been no criminal prosecutions?—Not that I am aware of.

*Lord Northcote.*

588. Might I ask how far has this information that you are now giving us been communicated to anybody outside the Department?—To the Congested Districts Board, who have also money lent. At their request I furnished a copy of this report to each member.

589. The previous witnesses have complained that they have been unable to get answers from your Department?—If you will kindly wait for a few moments I am going to deal with that fully.

*Lord MacDonnell.*

590. It would help if you mentioned whether these cases in which irregularities occurred are in the Congested Districts Board part of the borrowing?—No; they are entirely connected with the Department. I think I said quite plainly that I have no knowledge of any credit societies or banks unconnected with the 108 that have money borrowed from the Department.

591. Why furnish the details to the Congested Districts Board if they did not make further use of them?—I furnished the details because the Congested Districts Board, of which I am a member, requested me to do so, and I saw no reason, seeing they were in a similar business, why they should not be able to see what was going on in similar institutions. That is my answer. Rule XII. provides that loans shall only be granted for some profitable or productive purpose.

*Chairman.*

592. What is Rule XII.?—One of the rules under which all the banks are governed.

593. They are all governed by one set of rules?—That is so.

594. That is the set of rules that we have; just allow me to look at them?—I think I can furnish your lordship with a copy.

595. We have a copy of them?—Rule XII. provides "that loans shall only be granted for some profitable or productive purpose, or one which in the opinion of the Committee will affect saving or economy to the borrower." The Law Officers of the Crown advised the Department that they should insist upon these words being included in the rules. Cases have been brought under my personal notice of money being lent to road contractors and to the builders of labourers' cottages—men who could properly

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*Chairman*—continued.

properly have received what money they required, if they ought to have received it, from the joint stock banks in the neighbourhood. The inspector concludes his report by stating "that there are a number of well-managed banks doing a great deal of good, that many more could be advantageously established, but that there are also a number which are only doing harm by tempting people to increase their indebtedness without reasonable prospect of improvement thereby." Of the £17,000 lent by the Department to credit banks I should state that £3,126 represented special seed loans, which were for short and specific periods. If I may explain that to your lordships, the Department during the time of potato failure in the west tried to get the small farmers to borrow the money through these banks to buy the potatoes—it was an experiment—instead of having to go to the workhouse for them and having them connected with Poor Law relief; and these loans have been fairly well repaid. But one of the cases that proceedings have had to be taken against represents a seed loan. They have been fairly well repaid, I must say.

*Lord MacDonnell*.

596. It was a use made of the banks by the Irish Government which was somewhat foreign to the object of the creation of the banks?—I agree; but we thought it a good purpose.

*Chairman.*] Would you kindly, Lord MacDonnell, explain that to us, because I do not understand it.

*Lord MacDonnell.*] There was a scarcity in the west of Ireland, and it was considered desirable to furnish tenants with good seed potatoes to prevent them from making use of the potatoes that had failed. With that object the Government made advances, but instead of making advances to the individual tenants, and having to deal with a great number of individual cases, they made advances to these banks with the object of making the banks a distributing agency, and it was a business which was entirely foreign to the objects of the banks' existence; but, still, in order to meet the convenience of the Executive Government, it was done.

*Chairman.*] They undertook the work of distributing the money.

*Lord MacDonnell.*] Yes, and they fulfilled their obligation, as Mr. Russell says.

*Witness.*] I pointed out that these were special loans, and I did not occupy your time in going into minutiae.

597. And I wanted them explained?—The last item upon this heading is this: 63 banks have arranged for overdrafts at Joint Stock banks up to £12,190; 40 banks have not arranged for overdrafts; 41 banks have deposits to the value of more than £25; 62 have no deposits; 21 have deposits amounting to from £25 to £100 each; eight from £100 to £200; four from £200 to £300; three from £300 to £400; two from £400 to £500, and three of

*Lord MacDonnell*—continued.

more than £500 each. The total deposits in 108 banks amount to £8,149.

*Lord Welby*.

598. That only means that a certain number of people prefer to deposit in these banks because they get better interest, I suppose?—I account for the smallness of the deposits by one thing—the Irish peasant does not like his neighbour to know that he has money, and he does not trust any committee.

*Chairman*.

599. Especially a committee of his own friends?—Of his own friends; that is really the fact, and I think the smallness of the deposits by the people themselves is largely due to that fact. They do not like their neighbours to know what they have or have not. Now, my Lord, I have given as fully as I can the position of the credit banks which have money from the Department. Of course, I shall be glad to answer any questions I am able to answer, but I now come to some more recent proceedings, referred to in Mr. George Russell's evidence.

*Lord MacDonnell*.

600. May I interject a question here, as it will save you going back again? You told us that so many banks were satisfactory, so many banks fair, and so many unsatisfactory; has your Department been in possession of that knowledge for long?—We have been in possession of it since the inspector reported.

*Chairman*.

601. That is three months ago?—Yes.

*Lord MacDonnell*.

602. But it must have taken a long time for these unsatisfactory banks to have got into the situation in which the inspector found them?—I am going to give you cases which will show the very opposite.

603. My point is this: Why were these banks not inspected earlier, and when it was found that there was the commencement of a departure from the rule, why were these banks, the beginning of what you yourself would say is a very admirable system, that might be of much use in Ireland, not watched from the beginning, and put on the right track?—I will come to that information here, and show you what has been done.

*Chairman*.

604. What occurs to me is this, as I said before: Your Department has no power, in my opinion, at all to inspect them?—None whatever.

605. And the inspection that has been permitted by the banks to you is a permission which they were not bound to accord. I do not know whether there is any body qualified by law to inspect these banks, except possibly the Registrar



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Registrar of the Industrial and Provident Societies. He is?—I assure you, my Lord, they have refused to allow the auditor to audit them.

Lord MacDonnell.

606. Only in the two cases you mentioned?—In other cases.

607. There probably would be sufficient reasons for it in those other cases?—I am not entering upon that. I stated in opening of this evidence that this system was not of my creation, that I had grave doubts about it, that I had not pressed it, and one of the doubts I had was precisely whether I had the power to order an inspector to go into the bank and go over their accounts.

*Chairman.*] I at present (I do not know what your powers are very well) am quite at a loss to understand why you have got any better right to send an inspector into these banks than you have to send an inspector into the Bank of England.

Lord MacDonnell.] Would not the right arise from the fact of the Department's having made the advances?

*Chairman.*] The answer to that is, Certainly not; if I lend a bank money, which is rather inconceivable, I am quite certain of this, that I should not thereby acquire the right to go into the bank parlour and examine its books.

Lord MacDonnell.] Not if it had been a condition on which you financed the bank?

*Chairman.*] If I made a bargain with the bank, "I will lend you money if you let me examine your books," that, of course, would be so.

Lord MacDonnell.

608. (To the *Witness*.) Was it not an understood thing—this is Rule 16 of the bank, at page 23 of the little pamphlet we have: "The books and accounts of the Society shall be open to the inspection of any member or person having an interest in the funds of the Society at the registered office." These banks have been started by funds advanced by the Department.

*Chairman.*

609. The book you have, Lord MacDonnell, is a book of rules of a credit society not registered at all; we are talking wholly of the registered societies. (To the *Witness*.) Are there banks that are not registered at all?—I have no knowledge save of the banks that owe money to the Department; I have made no inquiries into any other.

Lord MacDonnell.

610. Are your banks registered?—I should fancy they are.

611. I do not think any of these co-operative banks in Ireland are registered; we want to bring them under a system of registration. I speak under correction.

*Chairman.*

612. You may be right, but I thought they were all registered, and their rules authorised.

Lord Welby.

613. Would you allow me to ask a question to clear up something in my mind? It appears to me that we are much in danger of falling into confusion between the action of your Department and (whatever the general law is I do not know) the general law with regard to a check upon these societies. I understand, I think, pretty clearly from you that you can only go in the case where you have advanced money. But considering you have discovered cases in which there has been misdoing of some kind, I cannot gather from what has been said at present that there is any check whatever under the general law upon these societies. For instance, taking your unsatisfactory societies, they may go on for any length of time without ever being brought to book, because there is no public officer—am I right—who can approach and insist upon an inspection of their action? I ask the question because I cannot trace at present from anything that has been said that there is any such general check on the proceedings of these banks?—That is a legal question, my Lord, I would not like to answer; I do know I have the right, under the bond, to recover the money. I confine myself to that, and once I get the money, although it does come to my knowledge in several cases that there has been wrong-doing (I will put it in that way so as to be perfectly sure), it is certainly not my business to do any more.

614. Perhaps you are not able to answer that question. Apart from your action in the matter, taking the case of one of these banks in which the secretary has misconducted himself, under no circumstances and at no time is that bank inspected by anybody outside the committee, by which such misdoings might be detected?—I cannot say.

615. I think Lord Cromer asked the question as to why there had been no detection of it, and my impression is that there has been no detection of it because there is no machinery of that kind. That is a question which first occurred to me on reading this Bill?—I inherited the system, as I have said.

616. As Lord MacDonnell has said, if a bank was registered there would be inspection. But in the case of these unsatisfactory banks you appear to think they are not registered, and therefore there is no inspection?—I know of no inspection.

617. That brings me to an important point as to whether there ought not to be some outside inspection, quite apart from that which you exercise with regard to what are simply your own departmental loans?—I think some little light will be thrown on this at a further stage: I have some things which will show what has been done in the way of inspection.

Earl of Cromer.

618. But your position is that you think your duty is to recover the money and nothing else whatever?—That is my position.

619. And

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Earl of Cromer—continued.

619. And that it is not your business to take either legal or, if I may say so, desultory notice of any irregularities or misdemeanours or anything else?—That is so; once the Crown Solicitor sends me the money and the thing is closed. I am done with it.

Lord Welby.

620. I might go one step further than his Lordship and say that you have no right to do so?—I do not think I have; I am not Crown Prosecutor.

Earl of Cromer.

621. In the event of a secretary committing some offence which would bring him within the terms of the law, unless the Crown Prosecutor takes it up nothing is done at all?—It might go into court.

622. Through some private individual?—The Attorney-General exists; the Crown Solicitor passes these things through his hands and sees what is going on.

623. But you would not consider it your business, in the event of any gross impropriety or illegality of conduct coming before you, to send it to the Solicitor with a view to his taking whatever action he thought fit?—I would not go so far as that. I think there might be cases where, apart altogether from the mere recovery of the money, I should consider myself bound to send the case to the Attorney-General, but it is not part of the system, and it must be a very exceptional case.

Lord MacDonnell.

624. But you do not consider it incumbent upon you to give this new experiment any special consideration with the view of keeping it on right lines in its early stages?—Here again I am going to tell you what I am prepared to do as to that; you are asking a question the answer to which is just coming on now.

625. Your general attitude of mind towards the system of co-operative banks is favourable?—To these co-operative banks if they are founded upon sound business principles; it is not favourable to banks that are not founded upon these principles, because, as the Inspector says, they only do a great deal of harm.

626. But to banks founded on the general principles which I have endeavoured earlier to enumerate for you, your disposition would be on the whole favourable?—I do not like to be put in the position of saying yes or no; I am going to state what will be done ten days hence by the Agricultural Board in Dublin in connection with this credit system, and I would rather you took my views from that statement than from a mere yes or no to a series of proposals read out at the table.

627. It would be important and interesting from my point of view if you would be able to say whether such banks conducted on the principles which we identify with the Raiffeisen system would be worthy of considerate treatment at the hands of your Department?—I shall answer that immediately.

Earl of Cromer.

628. You are going to tell us definitely of the alternative system you think better than the one which is proposed?—I shall give you my views upon that, but I have prepared this *precis* at the request of the Chairman, it is consecutive, and if the Committee would allow me I would prefer to take it in that way, because I think it will cover the whole ground.

Chairman.

629. I think it would be desirable if you were to read your statement, and then we will see what it is that we desire to have explained?—I would be much obliged if your Lordships would allow that to be done. I come now to some recent proceedings referred to in Mr. George Russell's evidence (Lord Northcote referred to that a few minutes ago). Mr. George Russell referred pointedly (I use the word "George," because over in Ireland in reporting this the two of us will get mixed up) to my action in regard to an annual subsidy paid to the Irish Agricultural Organisation Society by the Department, which enabled the Society, amongst other things, to superintend these banks, and he implied and, indeed, stated, that my action in withdrawing that subsidy which enabled the Society to do this and other work had arisen from political motives. The facts are these: During the seven years the Department was in existence before I became Vice-President, a subsidy had been granted to an outside organisation called the Irish Agricultural Organisation Society.

630. Is that Sir Horace Plunkett's Society?—He is President. In seven years this subsidy amounted to over £29,000. The Society claimed, and are fully entitled to claim, that they founded and pushed and pressed the co-operative movement in Ireland. They are entitled to this credit, but I know nobody in Ireland who is opposed to the principle of co-operation. I have never heard during the fifty or sixty years of my sojourn in that country of anybody opposed to the principle of co-operation, and it is wrong—I lay stress on it—it is entirely wrong for Mr. George Russell to have led your Lordships to believe, as he was reported to have done, that the Department (he called it the present Government) are opposed to agricultural co-operation. That is not so. When I came into office three years ago, I was compelled to deal with this large subsidy. A very large section of the trading community of the country were arrayed in hostility against it. The Irish Parliamentary party were united as one man against it. It was discussed in and out of Parliament, and in order to see my way clear (this is the political action with which I am charged) I invited deputations from the Irish Agricultural Organisation Society itself and from the traders of the country to confer with me. I do not mean the small shopkeepers in the West of Ireland, I mean the representative traders of the country from every part.

Chairman.

631. Are you reading your statement now?—Yes.

632. Are

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*Chairman—continued.*

632. Are you sure? Do you know it by heart?—Very nearly.

633. Because you do not appear to me to be reading it?—I assure you, my Lord, I am reading it verbatim.

Lord MacDonnell.] There are a few interpolations which quite naturally arise in the course of reading it.

*Chairman.*

634. You appear to me to be saying something which is not in the statement?—I have a long experience of public speaking, and perhaps I drift into that, but it does not amount to more than a word here and there, as Lord MacDonnell says, as an interpolation. The traders' case, as put before me by the large merchants of Cork, Waterford, Limerick, and Dublin, amounted to this—I boil it down to this: they said "that a State Department had no right to use the money of the taxpayer to employ agents to go around the country forming co-operative societies to compete with those taxpayers who were carrying on the same business at their own cost and without subsidy." This argument was pressed strongly upon the Department, and I have never been able to see the answer to it from that day to this. The result of the deputations, and of the consideration I was able to give the question, was that I submitted my policy on this matter of subsidy to the Council of Agriculture in November, 1907. The Council is a purely advisory body, which consists of 103 members, two-thirds being selected by the County Councils of Ireland, two from each county, and the remaining one-third nominated by the Department itself. They represent all creeds both in religion and politics. The nominated members, 34, were nominated not by me but by my predecessor. I informed the Council that I had made up my mind to withdraw the subsidy which my predecessor had paid to the Irish Agricultural Organisation Society, and which had been the subject of debate and controversy; but in order that no hardship should be caused to the agents of the society (I mean the paid agents of the society), I undertook to continue a diminishing grant for three years, £3,000 the first year, £2,000 the second and £1,000 the third. After a debate extending over several hours, this proposal was accepted unanimously by the Council. A leading member of the Irish Agricultural Organisation Society, who is also a member of the Council of Agriculture, stated that, so far as he was able to speak, he believed my terms would be accepted by that body. So, far from resisting my proposals, the Organisation Society, at their annual meeting held a few days afterwards, expressed satisfaction at the removal of what they considered an incubus on their work—£4,000 a year. They were, they said, at last free. That had reference to the fact that two official members of the Department had a seat on the Council of the Agricultural Organisation Society so long as they received £4,000 of our money. Now, my Lord, I submit that it will be very difficult for anyone to find politics in that. A few months afterwards, when everything was going smoothly

(07.)

*Chairman—continued.*

and satisfactorily with both organisations, the situation was rendered extremely difficult by a correspondence which appeared in the Irish Press. I do not produce that correspondence, and I do not enter upon its merits or demerits because of this—it involved the charge of political action by the Irish Agricultural Organisation Society against the Nationalist Party, and I do not wish to introduce politics at this table, but that correspondence compelled me to take action. Mr. John Redmond made it imperative upon me by his letter—I mean a public letter in the Press—and as so much was involved I took the precaution of convening a special meeting of the Agricultural Board. At that meeting there was only one absentee—Dr. Kelly, the Bishop of Ross. Now, my Lord, when politics are referred to as governing the action of the Department and my action, I should like your Lordship to remember that this Board is a statutory body; that it has the sole control of the Endowment Fund of the Department, amounting almost to £200,000 a year; it consists of men like the Archbishop of Tuam, Dr. Healy; the Bishop of Ross, Dr. Kelly; Lord Monteagle, Colonel Everard, His Majesty's Lieutenant for Meath; Mr. William McDonald, the Chairman of the Cork County Council, and Mr. O'Neile, the Chairman of the Dublin County Council. It consists, I think, of 13 men; I make 14 when I am in the chair, and I say that the idea of any man sitting in a chair like this—before a responsible committee of one of the Houses of Parliament, and charging either the Vice-President, who is subject to this body in the sense that they control his whole finances, or these gentlemen, with political feeling in a matter like this is perfectly inexplicable. Here is what the Board did upon this correspondence, which I say I was compelled to take action upon: "A letter from the Irish Agricultural Organisation Society was read, requesting a relaxation of the supervision at present exercised by the Department's officials over the entire expenditure of the Society" (I have already explained what that means). "In connection therewith the Board considered the question of the recent correspondence in the *Freeman's Journal*, and articles which had appeared in other publications, as well as speeches concerning the future policy of the I.A.O.S." (as it is commonly called). "After full consideration the Board decided that the impression which these letters, articles and speeches had created—namely, the association of the Irish Agricultural Organisation Society with hostility to a political party and to certain trading interests—greatly increased the difficulty of the Department, already for some years very considerable, in helping the co-operative movement by means of a subsidy to this Society, and made it impossible for the Department, in the interests of their schemes throughout the country, and in that of the co-operative movement itself, to continue their present relations with the Irish Agricultural Organisation Society. It was of primary importance" (the Board said) "that the Department should be above suspicion of being involved, directly or indirectly, in attacks upon

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[Continued.]

*Chairman—continued.*

any political party in or out of Parliament, or upon any legitimate trading interest. The same applied to the agricultural co-operative movement, which the Department had been assisting, and which the Board concurred with the Council of Agriculture in considering necessary for the well-being of Irish farmers. The Council, while divided as to the method of assisting the movement by grants to the Irish Agricultural Organisation Society, were unanimous in support of agricultural co-operation itself." (This is the body which was represented to your Lordships as being opposed to agricultural co-operation—the Board speaks in this minute; the witness in this chair, who has no knowledge of the facts, spoke to you.) "Happily" (they say) "the work of the Department was now regarded as non-contentious, and met with no opposition from any party or class. It was of the greatest importance to preserve this character for it, and to keep it free from association with political controversy or propaganda in any form. With this end in view" (now, here is the key to the whole position, my Lord) "the Board decided that the aid of the Department to agricultural co-operation of a non-controversial character should henceforth be given directly, and that the arrangement of assisting the movement by means of a subsidy to the Irish Agricultural Organisation Society should cease. The relations which had hitherto existed between the Society and the Department should accordingly terminate as soon as practicable, and the Department's officials should no longer serve on the committee of the society or take any responsibility for its work." Then there is another paragraph intimating what I proposed to do—not to take it all off at once, but to continue the grant of £3,000 to the end of the year and then stop. "Meanwhile, the Department should be prepared to give direct assistance for the organisation of agricultural co-operative societies in all the now well-understood non-controversial forms." Now, my Lords, that is the position I, as Vice-President, am in.

*Lord MacDonnell.*

635. Might I ask one question? You say: "The Council of Agriculture represents all creeds, both in religion and politics. I informed the Council that I had made up my mind to withdraw the subsidy which my predecessor had paid to the Irish Agricultural Organisation Society." Was it open to the Council of Agriculture to oppose your determination?—It was quite open to them to take a division upon it, and divisions were taken in the time of my predecessor upon it.

636. Would a division have been effectual in preventing you?—I expressly stated at the beginning of that paragraph that the Council was a purely advisory body.

*Chairman.*

637. If I may say so, we are getting a very long way from the subject of our inquiry?—

*Chairman—continued.*

Would you allow me to say, my Lord, that Mr. George Russell is entirely responsible for that. It is very hard. Your Lordships sit here, and the Irish papers are full of this in Ireland. The Department and I myself, on Mr. George Russell's evidence, are charged with political motives in all this, and I do think, when your Lordships were good enough to summon me to attend, that I ought to be able to put matters right for the Department, at all events, before the Committee.

638. I do not propose to prevent you from reading what you have written, but it is a very long way from our inquiry?—I have said that the Bishop of Ross was absent—and this is the last point now upon this matter; but he was aware of what was taking place. Now, as regards the Bishop of Ross, I think he is one of the greatest assets Ireland has in this matter of agricultural education. He wrote: "There has always been a hesitancy at the Board as to whether the Department should directly organise co-operation of production, or should subsidise an outside body, like the I.A.O.S., for the purpose. The latter method has been tried. The restiveness of the Society under the Department's supervision of the expenditure of its own funds, the recent publication of Mr. Rolleston's letter, and other expressions of opinion at the meetings of the Society and in the press, and the inexplicable desire of members of the Society to come into conflict with political organisations in Ireland force me to the conclusion that the alliance between the Department and the I.A.O.S. must be severed." Now, my Lords, as I have told you, the Board is a statutory body, and they have an absolute veto upon every shilling of expenditure of the Endowment Fund. The position, therefore, is this: This minute of the Board is the key to the relations between the two bodies. The Board resolved in effect: first, that in the public mind the I.A.O.S. was acting in a spirit hostile to the Irish Party; secondly, that further entanglement with this organisation was prejudicial to the work of the Department; third, that the relationship should be severed; fourth, that the representatives of the Department on the Committee of the Organisation Society should be withdrawn; and, finally, that the Department should do its own work as regards co-operation so far as it thought fit to do so. This being the finding of the Board, your Lordship will see that I am in a sense bound by it, although it is quite true, as Lord MacDonnell has stated, that it is my business to propound the policy of the Department. Lord MacDonnell is quite right there.

*Lord MacDonnell.*

639. I merely ask questions?—That is so, and your Lordship will understand that in a matter like this anyone in his senses vested with responsibility could not afford to set aside, and would never dream of setting aside, the opinion of such a body as that which I have described to you.

640. Can

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[Continued.]

*Chairman.*

640. Can we not get on, because, to my mind, this is all beside the question we are inquiring about?—I have no other apology for putting all this in, save and except that Mr. George Russell was allowed to say things the last day which have done very much prejudice to us in Ireland. I have nearly finished, however, and I now come to answer Lord Northcote's question, and I think we will get on territory now that will certainly be relevant as regards these banks. At a meeting of the Congested Districts Board, held the other day, at which application was made by this society for a subsidy of £1,000 a year from them, I made certain statements, as a member of the Board, objecting to the grant, and these statements were challenged by the secretary to this organisation. He wrote asking for the names of the societies. I gave the information, my Lord, that I gave in the opening part of my statement to-day, as to the number of banks which have been proceeded against, and the number the Department had recovered money from, and some statements from the inspector's report about the probable loss. The secretary of the organisation wrote a letter demanding the names of the societies. I gave him exactly the information I have given to your Lordships, and I said it did not seem that any public interest would be served by giving the names of the societies, and I rather objected on other grounds; I said I was not sure how far the Department would be justified after the minute of the Board in doing it. Now, my Lord, I have had the files examined, and this will answer a question of Lord Northcote's—there were fifteen agricultural banks involved in the loans that had been recovered through the Crown Solicitor. The secretary of the Organisation Society wished to have the names of the societies. He complained that we had never asked the aid of the Agricultural Organisation Society, which had established these banks, and which had advised with them, that we had never asked them to assist us, and complained very bitterly that that was not the way one Department should treat another.

641. I really protest against all this; we have nothing to do with it?—I am coming now to the banks. Why should Mr. George Russell have been allowed?

642. That I cannot tell you, but we have nothing to do with this?—Very well; here is the fact. Twelve out of the fifteen cases were reported upon to the Department by the Irish Agricultural Organisation Society, and here are samples of the reports: "No. 1. I.A.O.S. recommends that the loan be withdrawn; the people are too lethargic, and that no improvement in the management of the society can be looked for. I.A.O.S. advise that the Department should state that the loan must be repaid within a given date." The Bank asked for time. We asked the opinion of the I.A.O.S., and they advised us not to give the time and to insist upon the loan being paid up.

643. Are you going to read all those?—No, just extracts; there are twelve.

644. One is enough; you can put the others (0.7.)

*Chairman—continued.*

in?—Very well. My case now is with regard to Lord Northcote and the names. I say out of the fifteen banks of which the Irish Agricultural Organisation Society asked to have the names, they investigated the condition of twelve of these banks for the Department. They reported upon the state of these banks, they advised as to the proceedings that were taken, and I say that I cannot understand why the society that has done this should ask for the names.

*Lord Northcote.*

645. The only question I would like to ask in connection with that is: Did these fifteen banks originally obtain assistance from the Government through the Association?—They got the money from the Department.

646. They obtained money from the Department, and their case was represented to the Department by the Association?—Certainly.

647. And you do not feel justified in informing the Association at their request of the names of these defaulting banks?—I have not made myself clear. In twelve out of the fifteen cases the Department in the time of my predecessor handed over these defaulting banks to the I.A.O.S. for report. They reported upon them; they advised the procedure to be taken against them, and I cannot conceive why people who have done that should be asking for the names.

*Lord MacDonnell.*

648. What harm would it have done if you had told them, "You have already inquired into these things; we are acting on your own recommendations"?—I did not know that until Thursday.

*Chairman.*

649. I want to draw your attention to our inquiry, which is simply this: Is it desirable to extend to these banks what they call unlimited liability? That is the inquiry we are upon?—My Lord, I am now finished so far as these banks are concerned. I would never have said one word about either the position of the Department or the position of these banks and the I.A.O.S., but I consider that I was bound after the statements of Mr. George Russell in this chair to clear the Department of this charge of politics.

650. Now you have had the opportunity you desired to have, and upon your evidence I personally have only one question?—I have one word to say about the Bill itself.

651. You may say that, but upon your evidence I have only one question to ask you, and that is this: Is it in your opinion desirable that provision should be made for the registration of these societies, not under the Friendly Societies Acts as they are now registered, as I understand, but under the Industrial and Provident Societies Act, so that they may carry on under the same roof and with the same committee the double businesses of co-operative traders and bankers, and that they should do it with unlimited liability?—I am not in favour of that, and I will tell you why.

652. Will you tell me why?—That is just the next paragraph I am coming to.

653. That

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*Chairman—continued.*

653. That is our inquiry?—I have already pointed out that to a proper agricultural credit system I have no objection, that is to say, the Department have no objection to it, but I wish to make it clear that Section 1, lines 9 and 10, of the Bill will probably receive a very close and minute examination in the House of Commons at the hands of the Irish members. If I understand the section aright, it means that an agricultural credit bank or society may become a trading organisation as well. I think you will find the traders of Ireland arrayed in strong opposition when they realise what is possible under this system. I think the section is too widely drawn. If the section had confined itself to agricultural requirements, such as manures, seeds or machinery, or things of that kind, I should not have had the objection I have to it, but this is so widely drawn that all kinds of merchandise might be brought into this store.

654. Certainly, and I understand that to be the meaning of it. You say it will receive very minute criticism possibly in the House of Commons. Will you tell me why those men should not be entitled to combine together to supply themselves with other things besides the things that they require in connection with agriculture, such as clothing, tea, sugar, coffee, and such-like things? Why should they not?—There is no reason to object, as far as I am concerned, or as far as the Department is concerned; but what I wish to point out is this, that the traders of Ireland, if they find that a bank is to be opened and a store on the same premises, will naturally conclude that the people will borrow the money and deal with that store.

655. Then your objection is not to the principle, which you consider good, but to the impracticability of the thing, as you think it will receive so much opposition?—I have said all along that I have not the slightest objection to the principle of co-operation, and I see great good likely to arise from it, but I feel bound to tell the Committee that if this system were brought into Ireland, the traders who after all are citizens and taxpayers, and who in days when there were no such things dreamt of stood for the people of Ireland in times of stress and lost heavily upon them, are entitled to fair play, at all events, at the hands of the State. I have not the slightest objection to co-operation of any kind whatever, so long as you keep out of the region of a State subsidy. That is not co-operation at all; it sins against the fundamental principle of co-operation.

*Earl of Cromer.*

656. Under the words "State subsidy" would you include lending by the State?—I think the shopkeepers would have an equal objection to that.

*Chairman.*

657. Does this Bill contemplate State subsidy at all?—No.

658. Then that objection does not arise under the Bill?—That is so. All I say with regard to the Bill is that that section is so widely drawn that you will encounter furious opposi-

*Chairman—continued.*

tion in the House of Commons, and you will produce a great deal of discord, bad feeling, and bad blood in Ireland. That is my opinion.

659. I think your opinion is probably of some value on a point of that kind—considerable value, I may say. If the Bill were confined to giving to the societies that which they want, power to carry on a co-operative business limited in its objects together with a banking business with unlimited liability, would you then think the scheme practicable?—I have no objection to it.

660. But you have no objection to the other; you think it would be impracticable because it could not be carried through the House of Commons?—I only speak from my own knowledge of the House and my 25 years' knowledge of the Irish Members.

661. I quite understand that, and I think it is very good of you to tell us. I have no doubt there is a great deal of truth in it, but do you think from your knowledge that it would be practicable to carry through the House of Commons a Bill which provided for limited co-operation—that is to say, co-operation limited to agricultural purposes together with banking with unlimited liability?—I think that is an entirely different thing, of course, and I cannot see that anybody has a right to complain of that.

662. This first section says, "in conjunction with trading on co-operative principles," not limiting the word trading at all, and that is your point?—That is my point.

663. But, subject to that, you do not object to the principle of co-operative trading joined with banking and carried on with unlimited liability?—Personally, I do not object, and the Department will not object, but I cannot guarantee that the traders will not object.

*Earl of Cromer.*

664. I only wanted to ask a small question. I think you said in the course of your evidence that the loans had frequently been made to people you did not think had any right to get the loans, such as road contractors?—I did.

665. And that those were people who should have gone to the joint stock banks?—Yes.

666. Have you had many cases of that?—There have been several, but they may not all have been brought to my notice. Several have been brought to my notice.

667. Under the rules, it is entirely for the committee to judge whether the loan is a proper one or not?—Certainly, I agree.

668. Assuming that what you say has happened (I daresay it may have been the case), do you think that abuses of that sort could be obviated by laying down more distinctly for what purposes the loans are to be, instead of leaving an entirely unlimited discretion to the committees?—Of course, if you can get the rules carried out. But the summary I gave of these unsatisfactory societies with illiterates at their head not knowing the rules or anything else, shows that there would be very great difficulty.

669. The spirit of the thing was that a man should have money advanced to him for some purely agricultural purpose, such as buying seed or



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or agricultural machinery, or a pig or a cow?—Certainly.

670. And not for any other purpose, but you now say that these road contractors and others have received advances for purposes wholly unconnected with agriculture: is not that the case?—I do not know that the state of the roads is wholly unconnected with agriculture, but at all events they are transactions which ought to be done with a joint stock bank, and not with small banks of this kind. That is my judgment.

Lord MacDonnell.

671. I have very little to ask; I think Mr. Russell and myself are in complete agreement, but I understand that Mr. Russell has stated that he is in favour of those co-operative banks with unlimited liability, provided that the area they serve is small, that the clientèle is small—that is, that the numbers of the banks are small, that the money is given for particular purposes connected with agricultural business, and that the members look after the point of the expenditure of the money upon these businesses. In that I fancy Mr. Russell is in agreement with me?—They are all large assumptions; if you can get them done I am in agreement.

672. With regard to trading, you are also, I understand, in agreement provided that the trading is done in the same way, equally limited, and has reference merely to agricultural wants and necessities; is that so?

*Chairman.*] I understand—and you will correct me if I am wrong—that, personally, you have no objection to unlimited co-operative trading—that is to say, unlimited in its character—but you do not think that any such scheme would have any chance of getting through the House of Commons?

*Lord MacDonnell.*] I thought the unlimited character had reference to the lending of money.

*Witness.*] No. I think I must explain myself.

*Chairman.*

673. What he said, as I understand, was this: As to the co-operative trading as distinguished from the banking, it ought to be defined in the Act of Parliament, and show that it shall be limited to agricultural trading?—That is so.

674. If you were to make it general, so that the people could get their boots and shoes, and their tea and coffee, you would have such an opposition to it in the House of Commons that there would be no chance of getting it through.

*Lord MacDonnell.*] I quite agree that it is necessary to begin with limited trading directed to agricultural requirements.

*Witness.*] The Committee will take it from me, and I represent the Department here to-day, that neither I nor the Department have any objection to co-operative trading of any kind whatever. All the objection, and all the fight up to the present has not been on co-operation at all, but on subsidising co-operation, and as far as this Bill and the proposals in the Bill are concerned, I do not see logically how anyone in Ireland, trader, or anyone else, could object to it, but Ireland is not governed by logic, and you

will find the most serious objection, and your Bill will be imperilled.

*Chairman.*

675. We are getting outside the scope again?—That is all I have to say about co-operation.

676. We are not inquiring whether Ireland is governed by logic, or even England?—Lord Beaconsfield said that England was not.

Lord Northcote.

677. There are only two questions upon which your evidence differs materially from that of previous witnesses. I understood you to say that there was a branch of a joint stock bank open in every village practically throughout Ireland, one day or more in the week; was I correct in that?—You are quite correct in that, as anyone who has gone through Ireland as I have done can testify.

678. The arguments of the promoters of this Bill were that there were large districts in which joint stock banks had no branches, and where the banks in question would provide business for the joint stock banks?—I will tell you what that really means. My language was that in almost every Irish village joint stock banks were open on certain days of the week, or on markets or fair days, and the population coming to a market or fair comes from a wide area, perhaps 20 miles, and I say that is just one of the very things which some people question, whether all this is good for the farmers at all.

679. I rather gathered from the previous witnesses that there were no such branches. There was another point, that you said the Irish peasants had deposits in these banks but were very much frightened that their colleagues should know what money they had. That appeared to me to be rather in contradiction of the evidence we have had, which was that all the depositors knew everything about one another, and also that they were exceedingly anxious to promote the success of these banks from a feeling of mutual goodwill?—I doubt that. I know that the Irish peasant is naturally of a suspicious temperament, and he very much objects to letting his neighbour know what he is possessed of, just as in the old days he was sometimes not so poor as he seemed to be. It arises very much from this feeling of suspicion.

Earl of Cromer.

680. That is not confined to the Irish peasant, I think?—I expect it is not.

Lord Herschell.

681. There was only one point in connection with these road contractors I wish to ask a question about: what sort of sum would be lent to them—I suppose a fairly large sum?—I have not pressed my inquiries so far as that; I saw it in the Report, and I challenged it, and the inspector defended it. He said it was within the power of the committee, and the labourers' cottages in the same way; a farmer takes a contract for a road and another farmer takes a contract to build a labourer's cottage, and the inspector



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spector defended that as a proper expenditure of money. It was not my opinion however.

*Earl of Cromer.*

682. There can be no doubt that if these are the rules that apply, it is within their powers, because the power is absolutely discretionary?—They understand now that they will get no money from me for any such purpose.

*Lord MacDonnell.*

683. Do you think that any such loans should be prohibited?—I think they ought to get the money from the joint stock banks, and they ought to be prohibited in this case.

*Lord Welby.*] I am extremely anxious to understand something about the nature of the inspection taking place by an independent authority. I am not sure that Mr. Russell is the person to ask the question of, and I want to ask your Lordship whether the question will not be properly addressed to the Registrar of Friendly Societies.

*Chairman.*] He is the man to tell us about that; I am told, Mr. Russell, by Sir Horace Plunkett, that all these societies are registered at present under the Friendly Societies Act.

*Witness.*] I think that is so.

684. The Friendly Societies Act fixes them with unlimited liability, but it does not give them registration; they have to act through the trustees, and it does not enable them to carry on at one and the same time co-operative trading and banking. If they get registered under the Friendly Societies Act, they get incorporation, and if that Act is amended for the purpose,

*Lord MacDonnell*—continued.

will they be able to get unlimited liability?—Yes, so far as I know, my Lord, and as to the banks which were inspected by this Irish Agricultural Organisation Society during the time of my predecessor, all the business of the banks was transacted through that Society; they inspected and found out everything about them.

685. I am at present upon Lord Welby's question: If the Industrial and Provident Societies Act is amended so as to give unlimited liability, everything that the promoters of this Bill have in view can be attained; they can have co-operative trading, and they can have banking; they can have them both under one roof; they can have unlimited liability and incorporation, everything they want, and my view is (I do not know whether you know sufficient of the Act of Parliament to enable you to answer that question—this was Lord Welby's question) that the accounts of such a society can by law be examined by the Registrar under that Act of Parliament. I do not know whether you know sufficient of the Act to enable you to say whether it is so or not?—I do not.

*Lord Welby.*

686. I might, perhaps, ask you a question. You have come across the knowledge of some malfeasance in the past in connection with certain of these societies, but you have no evidence, I gather, that any independent authority has examined the accounts of these banks and brought them, so to speak, to the Bar?—That is so, my Lord. I have two cases on the files of wrong-doing on the part of the secretaries which, if they had been taken up legally, would certainly have landed them in difficulties with the law.

THE RIGHT HONOURABLE SIR HORACE CURZON PLUNKETT, K.C.V.O., is called in;  
and Examined as follows:—

*Chairman.*

687. Sir Horace, I think you are now quite conversant with the objects of our inquiry and the scope of it, and I should like you to give the Committee your views upon it?—My Lord, I take it that, in order to save the Committee's time, I need not state my own personal experience in connection with this question, my official and unofficial experience for the last twenty-one years, because that has already been given by Mr. George Russell. There is a great deal of evidence that has been given by the last witness which I am very much concerned to reply to, because my own responsibility for the expenditure of public funds is very gravely involved in certain statements which he has made; but I cannot myself see that it is relevant to your Lordships' inquiry, and therefore I think I must take some other opportunity. For instance, Mr. Russell, although he told us that Mr. John Redmond made his attitude towards the co-operative movement imperative, said that he was influenced by no political motive. He further told us that there was no trade opposition to co-

*Chairman*—continued.

operation, but only to a State subsidy, and yet he says that if this Bill is presented to the House of Commons it will be knocked out by the traders. He further tells us that the Department had influential deputations of traders, not only country traders, but traders from the chief cities in Ireland, and that his action was very largely guided by them. I cannot for the life of me see how it can be supposed for a moment that the trade do not object to co-operation, as they have done until quite recently in this country, as they have done in every country in Europe where co-operation has been introduced, and as they are still doing in Ireland. To say that they simply object on high constitutional grounds to an undue intervention of the State in the business of the people, seems to me to be so contrary to all fact and experience that it is hardly worth while replying to that point, although it is a very material one. If your Lordships should have any doubt upon it I must, of course, but it seems to me that it is so well known that it is hardly worth while arguing

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*Chairman—continued.*

arguing. Therefore, unless your Lordships wish me to give facts to prove that there is still a trade opposition—as I think a mistaken trade opposition, because I believe that agricultural co-operation would enormously benefit trade—unless your Lordships wish me to deal with that point, I propose to leave it alone, as I have often argued the matter in public, both in writing and in speeches.

688. I do not think we want you to travel into that field?—Very well. Then perhaps it would be relevant just to tell your Lordships very briefly what the origin of the connection between the two Government bodies, the Department of Agriculture and Technical Instruction and the Irish Agricultural Organisation Society, was. I was the person chiefly responsible for organising and setting to work this new Department. I had taken a good deal of interest in the inquiries which led to the creation of this new institution, which your Lordships no doubt are aware was based, not upon any British or Irish precedent, but entirely upon the experience of a very large number of Continental countries. A non-political, but very representative, committee of Irishmen made an inquiry into the condition of rural communities in nine European countries, selecting countries which had peasantries formerly depressed, but now prosperous. The object of the committee was above all things to ascertain how much of the improvement was due to the action of the State, and how much to the organisation of voluntary effort. In the result, as those who have read the report of this committee know, the general conclusion was arrived at that while in a country situated as Ireland is there must be a very large departure from *laissez faire*, and that Continental methods which were not required perhaps in other parts of the United Kingdom, must be adopted and adapted; at the same time, far more important than anything that the best of Governments could do for a peasantry was what the peasantry could do for themselves by adopting co-operative principles, one very important part of which is, of course, the organisation of credit, with which your Lordships are dealing in this Committee. So it came about that the Department of Agriculture was founded very much more than any other institution in this country on the idea of the State not providing any substitute for the voluntary efforts of the people, but taking such action as would evoke and supplement their efforts and, *pari passu*, with State action, ever since the Government in Ireland began to adopt those Continental methods, the body of men with whom I have worked for 21 years have been trying to build up outside the Government, but in co-operation with the Government, a system of organised voluntary effort covering every branch of the main industry by which the people live. As one who has been responsible both for the action of the State in this matter, and still more for the action of an organisation having now nearly 100,000 members—an organisation which has been supported most liberally, not only by the public but by the very poorest of the poor in Ireland—an organisation which your

*Chairman—continued.*

Lordships may imagine from the evidence you have heard has relied mainly on State assistance but which has derived at least twice as much from voluntary sources as it ever got from State assistance—it is on behalf of that organisation that I come before you to-day and wish to discuss with you what we regard as an extremely important measure for removing certain obstructions which now stand in the path of our progress. I am now prepared to answer any questions that may be asked of me about the details of this measure, but I should like in the first place to make it clear to the Committee why it is that we have asked for special legislation dealing with what is vitally important but still only one part of our co-operative programme—why we cannot deal with co-operative credit in the same way as we are dealing with all other parts of agricultural organisation. The reason is simply this, that you are dealing with very poor debt-laden and very ignorant, although happily in Ireland, very intelligent communities. They are often absolutely under the control of the trader-creditor—not so much the gombeen man of whom we have heard so much, but of the ordinary local shopkeeper—

Earl of Cromer.

689. Is the gombeen man only a usurer, or is he often a trader and usurer?—The gombeen man was originally, I understand, a moneylender—he may not have been usurious, but I think he was a moneylender, and in all poor communities money is lent at very high rates of interest—necessarily so, and it is generally allowed that those who can pay have to make good for those who cannot, and the interest is therefore always extremely high. The gombeen man is a moneylender pure and simple, but in recent years there has been a tendency for pure money transactions to disappear, and for short credit to take the place of direct money loans. I have known communities in Ireland where money hardly passed at all, where the poor people were carrying on a system of barter, where the shopkeepers—often kind-hearted men—were working an abominable system, a system abominable through no fault of theirs (there are black sheep in every flock, and some of them are very bad), and under the system very often you have the local trader just giving his customers enough to keep them alive, giving them what they absolutely have to have, and taking from them everything they produce, and where they have not anything substantial to give, even taking their labour; for instance, when they go into sea and gather kelp for them. Your Lordships can easily understand that in these transactions the under-crediting for what these poor people turn in, and the overcharging for what they receive on books they never see, and probably could not read if they did, may cover a system of usury that would make Shylock turn in his grave if it was really analysed. That is the system we are trying to abolish. Now, when you come down to a community of this kind, these people obviously have no credit at all to give; the only credit they can give is their joint and several security.

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[Continued.]

*Lord Welby.*

690. In order to understand, I ask you this: Is your organisation responsible for this Bill? Do you father it?—I think Mr. Wolff is more responsible, but we do —

691. You were speaking of "we"?—We, the Organisation Society, support it.

*Chairman.*

692. I should like you, if you could, to tell us whether you see any difficulty in introducing by legislation the provision that Mr. Wolff and Mr. George Russell suggested would be sufficient, namely, the unlimited liability—that is the main point—the unlimited liability and the joint co-operative trading and banking.—I presume you mean introducing it into the Industrial and Provident Societies' Act?

693. I do not mean that; that is a technical difficulty. What I mean is the practical difficulty of getting it through Parliament, because we may be of opinion that it is a very desirable thing that these facilities should be accorded, but it may be that we are attempting to recommend something which will be impossible. Mr. T. W. Russell has told us that in his opinion there will be such an objection, in the House of Commons particularly, to co-operative trading of a general character combined with banking as to make it hopeless to get such a Bill through the Commons.—My Lord, there seem to be two questions, firstly, the power of one of these credit societies to trade at all, and, secondly, their power to go outside agricultural trading and trade in tea and sugar and so forth. Now, with regard to the right to trade at all, there will be objection to that which really I think myself has more to do with the second objection than with the first. I cannot conceive how, if you begin one of the societies with the object of jointly purchasing seeds, manures, and so forth, you can prevent them, should they wish to do so, from using their organisation for buying tea and sugar. I cannot conceive how that would be possible, and therefore I am quite certain that there would be strong opposition from the local trader in Ireland, and of course there is the great sympathy naturally which extends throughout all the powerful trade organisations, and it is conceivable that if they did not understand the circumstances (I hope they will after your Lordships have done with this matter), you might even have Chambers of Commerce objecting to this Bill on the grounds your Lordship has indicated. But I do not myself take this opposition seriously, and I have good grounds for saying so. I have been 21 years fighting this opposition, and every year it has become less and less; it is now perfectly reasonable. I will give your Lordships an instance; only the other day I was at a meeting called by the Lord Mayor of Belfast of the most important merchants in Belfast solely to consider whether the leaders of commerce and industry in Belfast ought in the general interests, not of agricultural Ireland, but in the whole of Ireland, and having regard to the importance of developing the home market, to support the Agricultural Organisation Society; and they unanimously agreed that they ought to sup-

*Chairman—continued.*

port it, and they know perfectly well that while the Agricultural Organisation Society only organises for agricultural purposes, it cannot put any restrictions upon the societies it forms, and that they might use, and if not properly served by traders will use their organisation for the same purposes as civil servants use them over here for general trading.

694. As I understand, you are not disposed to place so much importance on Mr. T. W. Russell's objection that the Irish members would view this scheme with disfavour?—I will tell you what occurs to me, that if you were to introduce these little co-operative societies into an English village you would have every little shopkeeper in the district objecting to it; I am sure you would.

694.\* Am I to understand that you think the objections which Irish shopkeepers of the same class would have are not so strong? They will not like it, you know?—The position in Ireland, as in every agricultural country, is that up to a certain stage of development one trader has a hundred times the power of a farmer, and it is no good burking this question as to why the Agricultural Organisation Society has these troubles. One reason why Mr. Russell has been forced to take the action he has is that the traders have very much more influence upon political organisations than the farmers have, but now as the farmers are beginning to understand this issue, as they are beginning to see that it really is, however you cover the thing up and mystify the thing, fundamentally a question between the trader and the farmer, not between the most intelligent traders, because they are now beginning to see that as the standard of living in the country rises their clients will become much larger consumers of more varied commodities, and they will be much better paid—they see that while the profits on the individual transactions may be smaller, while there may be some temporary disturbance of their business arrangements, ultimately there will be an enormous benefit to trade in the aggregate. That is why the opposition is gradually dying; it is simply because there is no real conflict of interest. I may say, further, that the security of the British taxpayer for his vast investment in Irish land depends upon the thorough reorganisation of the whole business of the Irish farmer upon co-operative lines.

695. Then do you think that the proper plan of dealing with co-operation is to make it as wide as possible?—I do not quite understand in what way you may mean.

696. Mr. T. W. Russell would limit the co-operative business to a business connected with agriculture; he would not have tea, coffee, boots and shoes, hats and caps, and such like things. Am I to understand from you that you would put no limit upon it at all?—In practice I would limit agricultural co-operation, but in law you cannot do so. All I want is to get farmers to combine together in connection with this basic industry with the whole of the agricultural business, as the prosperous peasantry of every country in the world are combined. I would personally

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*Chairman—continued.*

personally prefer that they should leave the shop-keeping business alone, but where I differ from Mr. T. W. Russell is that I cannot myself see (this is a question for lawyers) how you can restrict a society, how you can possibly differentiate between manures and tea. Of course, you might say that there is a very wide difference between manure and tea, but where are you to draw the line? When you come to feeding stuffs it is absolutely impossible to draw the line, and it is impossible because, as Mr. Russell said here, and as we are all agreed, there is no principle upon which you can do it; there is no earthly reason why people should not combine together, as the Rochdale pioneers first combined over a chest of tea.

697. On that I would like to ask you another question arising out of Mr. Russell's evidence: do you think with him that if you make the scope of the co-operative trading as large as possible, as large as it is in this Bill, you will wreck the Bill in the House of Commons?—No, I do not think we should permanently wreck it; it might be that we should not get it this year, but the case for the Bill is unanswerable in my judgment, and, of course, when the thing comes before the House of Commons it will be an issue, and we shall have an opportunity of getting people to understand it. Then we shall be able, I have no doubt at all, to get the Bill through, if not this session, next session. All I want is to get the thing presented by some authoritative body, such as this Committee, on its merits, to the public, and then we can discuss it.

698. Now there is another matter I want to put to you: If these societies are registered under the Industrial and Provident Societies Act, instead of under the Friendly Societies Acts, the legislation that exists at present without the assistance of either the House of Commons or the House of Lords will enable the societies to carry on the joint businesses, the banking and the co-operative business: is not that so?—That is so.

699. And you do not want legislation in that connection?—You would want legislation.

700. You want it for the unlimited liability?—I understand the issue we are discussing now is, assuming that your Lordships mean to give us the substance of this Bill, there are two ways it can be done, either by grafting trade on to unlimited liability under the Friendly Societies Act, or by grafting unlimited liability on to the Industrial and Provident Societies Act.

701. In my opinion you have expressed it perfectly?—I prefer the former course, and for these reasons—

*Earl of Cromer.*

702. The former is grafting it on to the Friendly Societies Act?—Yes, I prefer grafting trade on to the Friendly Societies Act, and for these reasons:—Firstly, I am convinced from what I have known of the co-operative movement in England, that you would have a very large number of the leaders of that movement opposed to making such a radical change in the whole  
(0.7.)

*Earl of Cromer—continued.*

structure of the Industrial and Provident Societies Act.

*Chairman.*

703. The unlimited liability, you mean?—Yes.

704. That would be the only question?—That is only one, but I have always understood that the main purpose of the Industrial and Provident Societies Act was to give the protection of limited liability to men, mostly poor men, who joined together, not for the purpose of making a profit, but for the purpose of improving their condition; it was not a capitalistic combination, but it was a beneficial combination. I think myself that the leaders of the co-operative movement would be extremely unwise to allow that unlimited liability to be permissive, even with the kind of safeguards I have heard suggested—safeguards as to area—because I think it might lead, and in some cases I believe it would lead, to financial disaster. I now come to our own special case. I have explained to your Lordships that the reason we favour unlimited liability in connection with credit is that it is the only security that can be developed in a very poor community. I may say, incidentally—of course, you have had this from other witnesses—that every one of us values the moral and educational influence of that class of organisation far more than the material benefits, and, further, as Mr. Wolff has taken it from me in his book, and I confirm the statement, if I had to begin to organise the Irish farmers again, if I had all my experience of twenty-one years over again, I would begin with Mr. Wolff's system, and not with the creameries and other things, which show far greater returns. The biggest part of our business is the reorganisation, the carrying out of the industrial revolution, you may call it, in the Irish dairying. That is the biggest thing we have done; but, morally, the best thing we have done is the struggle we have had against every conceivable opposition, and of which the last witness has given a good illustration, to introduce this system of mutual security into the west of Ireland. I need not labour the point that unlimited liability, as we will call it—because we know what we mean by unlimited liability—is necessary, because that is recognised everywhere—it is recognised all over the Continent. The question is whether it would be safe to give these banks trading powers. I am leaving out at present the question of whether it would be expedient on the ground of political or trade opposition, but whether it would be safe, whether it would really lead to their economic development, or whether it might check the movement. Now, briefly, the reason why we want to combine these two things is—and here I am speaking, not with the organising experience that Mr. George Russell has had, but with a good deal of organising experience—that when we go down to one of these poor communities, and explain to them the mysteries of the Friendly Societies Constitution, explain to them what a society is, to begin with, and what a friendly society is; in fact, explain to them  
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[Continued.]

*Chairman*—continued.

them all those things they must know, the constitution, the rules and the procedure, which they must understand the effect of before they can safely begin to do business—by the time we have done that I think practically we have exhausted their receptiveness.

705. Their intelligence?—I will not say that; we have made a very large demand on their intelligence, but they have to receive this doctrine before they can start business at all. Now, it is proposed by those who favour the introduction of unlimited liability into the Industrial and Provident Societies Act, that we should have to explain to these people that they can do what they want very badly to do; they can do other things besides creating a store and providing working capital, and so on, they can buy their manures, seeds, and so forth. But in order to do this they must act in another capacity—they must belong to another form of society. As things are now, in a district where you very likely have not quite the makings of one committee, you have to explain that these people, the same men meeting in the same place, doing what they regard as very much the same business, have got to act first in one capacity and then in another capacity, and the end of it is that they will get confused, and will act in no capacity at all, and the whole thing will be chaos. I know it may seem strange that these people who are intelligent enough to absorb the one system should not be able to absorb the two, to be able to reconcile them, and to work the two. As a matter of experience I say they cannot and will not, and it is a very great handicap to us having to urge them to try. That is the experience of foreign countries. Mr. Wolff tells us that every country where Raiffeisenism has been attempted has found exactly the same state of things.

706. I understand, if I may put it in new words, that you think that having these societies already registered under the Friendly Societies Act, it is not desirable to introduce legislation which would involve the reconstruction or the creation of another society, but to take these societies as they are registered under the Friendly Societies Act, and graft on to them the power to trade as well as to bank?—That is what I recommend.

*Earl of Cromer*.

707. And you prefer that very much to the other alternative of grafting on to the Industrial and Provident Societies Act the unlimited liability?—I do.

708. And you base that mainly on the difficulty of being able to explain to these people, many of whom are necessarily very uneducated, the particular operations in which they are to engage?—That is one reason, but I have some other important reasons. One was explained to you by Mr. George Russell the other day—that one of the difficulties into which a great many of these credit societies have got is due to the fact that there is no fund out of which the secretary can be paid. Now, it seems a small matter, and yet any business man will see—it is quite true that the rules prescribe

*Earl of Cromer*—continued.

that all the governing body of the society must be unpaid, they must be volunteers; but the rules also provide that the secretary may be paid, and it is quite right that he should be paid. His duties are difficult and responsible; it is generally the village schoolmaster who undertakes the duty.

*Chairman*.

709. I suppose the payment would be very small?—It is so minute that you cannot expect him to give good service for it. In the banks which do succeed, it is generally because the secretary is really a very good patriotic fellow, and he is interested in the system; but where the man is driven into the thing because he is the only man who can keep accounts at all in the district, who is pitchforked into the thing and is not paid for it, you cannot expect good service, and he gets slack, then his committee gets slack, and these troubles arise. Then when you have Government Departments lending money and they are obviously out of sympathy with them—I do not say at all out of heartlessness, but simply because they know nothing about the subject, difficulties arise. The statements that have been made here by the last witness show that he has no familiarity with the system he was describing; his remarks about the banks made this plain. He had not studied them at all, and could not be in sympathy with them, and he does not know the difficulties of these societies.

710. There is no use getting into that subject again. The first reason is that these societies are already registered under the Friendly Societies Act?—Yes.

711. It would be extremely difficult to explain to the committees of these societies the reason for registering them under another Act of Parliament?—Yes.

712. That is one reason?—That is a reason against leaving things as they are only.

713. Surely not?—I do not think you quite understand that, my Lord; that is a reason against leaving things as they are, because as things are now they are able to register two societies, and we often find two in the same district; only we know it does not work well, the bank and the Agricultural Society, as it is called, the one with unlimited liability and the other with limited, one with one thing and one with another, and that is what we want to avoid.

714. I did not know you had two societies. Another reason is that if the society remains registered under the Friendly Societies Act provision could be made for payment of a secretary?—That is another reason.

715. What other reason is there?—The other reason relates to the difference between the financial part of co-operation and the other forms of co-operation which deal with material things, seeds, manures, creameries, and so so forth. It is very important to keep in very poor communities substantial men out of the credit societies, because obviously the virtue of the unlimited liability would be gone if there was even one really substantial and 99 ciphers in

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[Continued.]

*Chairman—continued.*

in a society of 100. At the same time it is very important if there is such a substantial man to have him in with the trade. His business advice is enormously valuable, and all classes of the community joining together in their trading transactions is an extremely good thing. Now it is quite true that in these particular districts, supposing that you had unlimited liability societies with trading powers, except in rare instances, probably the strong man as we will call him, would not have anything to do with that society. But now you go outside that district and you have a whole lot of industrial and provident societies which have been joined by all classes in the district, where the rich men and the poor men have united together to have a creamery, let us say, or a joint purchasing or selling society. If you imported unlimited liability into that in order to avail themselves of the credit end of the business, I think you would be very gravely endangering the project, and we shall make the same objection I expect the Co-operative Union will raise if you try to import unlimited liability into the Industrial and Provident Act over here.

716. I am not sure at all that I follow. Do you desire the unlimited liability to be confined to the banking?—No; but only to societies which must bank on the unlimited liability principle.

717. They are the societies which must bank on that principle?—They are the existing credit associations on the Raiffeisen plan, which, as I have said, are only suitable in my judgment to districts where people live upon about the same scale, and that a low one.

718. Do I understand you to suggest that there should be provision by legislation for some limited banks and some unlimited banks?—At present, under the Industrial and Provident Societies Act, societies can do banking business.

719. Yes, but they are unlimited?—No, my Lord.

720. Under the other Act?—Yes.

721. Do I understand you to suggest that there should be some banks that should be limited and some which should not?—Really, I am only dealing now with the banks which must be unlimited, and the only question I am discussing —

722. I have not yet heard it suggested that there should be two classes of banks, one with an unlimited liability and the other with a limited liability?—This Bill, my Lord, would only deal with one class of banks—that is, with banks with unlimited liability.

723. Have you any other reason?—I think those are certainly my main reasons.

*Earl of Cromer.*

724. I have not quite understood your attitude on one question. You said you wanted a Bill recommended by us which would give full trading rights to these new institutions, and you recognised, I think, that that would excite a great deal of opposition, just in the same way as Mr. T. W. Russell did before. It is perfectly obvious, is it not, that that opposition would also be excited as the noble Chairman has said, in  
(0.7.)

*Earl of Cromer—continued.*

every village in England, but you said you wanted to have this before the public, as you thought you would get it through eventually. What I wanted to understand is this: would you prefer from your point of view exclusively, without reference to any opinion of mine, a measure of that sort, and to have it before the public? Or would you prefer a minor measure limiting the operations of these institutions to agricultural affairs with a better chance of getting it through the House of Commons and Parliament, and with a less chance of encountering strong opposition? Do you understand my point?—Yes, as I said before, my Lord, I cannot myself see how it would be possible—though others may be able to do it—to draft any form of words which would limit co-operation to what might be called agricultural subjects or requirements.

725. You would say, I suppose, that if a man was able to co-operate and sell his neighbour a plough, or rake, or hoe, he might also sell him a pair of trousers?—Yes, but I do not see what would be gained; in the first place, there would be absolutely no principle your Lordships could stand behind, it would be a mere question of expediency, and there would be this obvious objection, that the power that you hesitate to give under this Bill already exists, and there is absolutely nothing to prevent general trading; there are thousands of co-operative societies in England doing so where you say the traders would object to its being done under this Bill. It is being done, and it is perfectly open to everybody. The only thing that can be said, is that the word "co-operation" is such a red rag to the trading men that they will oppose it whenever they see it in an Act; there is nothing more in it than that.

726. You would prefer to go for the large measure even at the risk of its not being carried?—Certainly, simply because I think otherwise you would be in a false position on principle, and I doubt whether you would gain anything in expediency.

*Chairman.*

727. And because you think education will at last induce the power—the House of Commons or whatever the power may be—to pass the Bill?—I know it will.

728. You anticipate that next session but not this session?—It depends very much upon your Lordships' recommendation, but I am convinced that with the enormous interest that the general body of taxpayers have in the working out of this land policy in Ireland, Parliament will be very glad to do anything that is shown to be necessary to increase the solvency of the peasant debtors in Ireland. That is my position.

*Lord MacDonnell.*

729. The only question I have is: Do you think it is quite impossible to differentiate between one sort of trading and another?—I do; I think it would be impossible to draw the line.

730. If a clause was drafted in which the line was drawn by an expert draughtsman, would you be disposed then, if a clause could effectually be drafted, to put forward a minor or smaller measure,



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*Lord MacDonnell—continued.*

measure, and then when success attended that you would probably get the larger measure in course of time?—My Lord, I feel then you would have the whole weight of the co-operative movement in England against you. I think you would lose far more by that than you would gain.

731. Would you restrict your Bill to Ireland, where it would deal altogether with agricultural matters?—I am afraid that as we are co-operating in this matter with the agricultural co-operative movements in England and Scotland, and with all that Mr. Wolff represents, we in Ireland could not very well say we would come for a Bill restricted to Ireland.

732. We have it from Mr. George Russell, and from Mr. T. W. Russell, that there would be the strongest opposition on the part of the local traders in Ireland, and you admit that is so?—Yes.

733. Would it not be wise to see whether we could not overcome that opposition by a smaller measure at first?—Unhappily, I am convinced that no smaller measure would overcome it. In the first place, I have said until I have seen the draft of the Bill I do not believe you could satisfactorily draw the line between the requirements of the household and the requirements of the garden and the farm.

*Lord Welby.*

734. The Chairman has mentioned that he thought there would be opposition in every village. You are an old Member of Parliament, and your memory goes back nearly as far as mine own. You know the difficulty we had—I am now talking of executive Governments—20 or 30 years ago, over the co-operative question in Parliament?—Yes.

735. Do you not remember what a very strong agitation there was?—Yes.

736. May be say now that that question is solved—I will not say in every village—and that you and I cannot go into any county town without seeing how completely the co-operative system has caught hold. I am talking of England?—You mean in England—certainly, and the best illustration of that is the action of the Board of Agriculture and Fisheries; the Government are extremely anxious, as we all are, to make a success of the small holdings policy. What have they done? They have given a subsidy to the Agricultural Organisation Society of England, which is simply an exact imitation of the Agricultural Organisation Society in Ireland, and they are giving them that subsidy to do the very things which it is decided upon the principle we have had laid down just now, cannot be done in Ireland; so that the position of agricultural co-operation is absolutely different in England. These small holders are to-day being organised into societies to purchase all their agricultural requirements, and to sell their agricultural produce, and to do everything that is understood by agricultural co-operation.

737. I am only pointing out the gradual dying away of the feeling against that, and I am reminding you that, as regards England, of the pressure that was brought upon members of both parties by the local traders, which was

*Lord Welby—continued.*

very strong, and I remember the difficulty also of the executive Government, it did not matter who was in. Nowadays that has almost entirely died away?—Yes.

738. The rule is accepted, and therefore I think that we may anticipate that the same will necessarily occur in Ireland?—Yes.

739. You mentioned just now that the secretary ought to be paid; of course, where you have very small societies there is very little money probably there, but they will not be all very small, and the secretary will have some command of money, will he not? What do you contemplate? We have heard that he has too much command of money?—One of these societies starts very often simply by borrowing £50, and they lend that out in sums of £2, £3, and £4 to their members. They borrow at 4 per cent., say, and they generally lend it out at 1 per cent. more than they borrow it at. To begin with, even assuming that there is no money lying idle, that it all goes out just as it is borrowed, even then the sum for the working of the society is minute, and it does not give anybody any anxiety; but if they were to combine for trading purposes, and you had one man doing the trading transactions which do furnish a surplus out of which one officer could be decently paid, he would do the two classes of work, and he would be perfectly satisfied, and be a much more efficient secretary.

740. I think the question was put to you that the pay of the secretary might be negligible, it was so small; but the thing in my mind was that we must be prepared for cases where there is a certain amount of business carried on by the secretary in which money would be passing through his hands, and in that case one generally knows what happens if the remuneration is nil or infinitesimal—there will be something going wrong?—You will not get efficient service if you underpay.

741. What we should cover is not an extravagant payment in any way, but we should contemplate that the payment would not be nominal?—That is so. There is one point—rather an important point—with regard to the Irish societies which, I think, the Committee appear to me not to be quite clear about. The last witness told you that money had been lent to two persons who, he said, were the most solvent persons, and the secretary. I think that is a mistake.

*Chairman.*

742. I do not think he said that; what he said was that the money had been lent to the bank, and in exchange they had taken as security the bond of the two men and the secretary?—Yes; but those two men did not give their personal bond; they only bound themselves (I think I am right in this) as the trustees and secretary of the bank. I think it was Lord Welby who pointed out that the mere fact of bringing in the secretary showed that it was not an individual, but the institution, that was made responsible, and that is so. It is



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[Continued.]

*Chairman—continued.*

is rather an important point. And one other point I would like to mention is this—that the rules do provide for inspection by any person interested—a *fortiori* by the body that has lent.

*Lord Northcote.*

743. I think Mr. T. W. Russell said that the Department would only proceed against these two men who had signed the bond, and the secretary; they would take no departmental cognisance of the other members of the society?—That would not be quite right; they might choose to do so, but it would not be what was contemplated in the system at all—it would not be usual. But the main complaint that we have is that the body which organised these societies, and which has always been able when they have got into trouble, by negotiations, inspection, and so forth, to get them to pay up, was not allowed to know which of these societies was in default, so that we could not lend our help, and we thought, both on public grounds and every other ground, we ought to have had this information before. I do not myself believe that any one of

*Lord MacDonnell.*

these societies which has had its debts wiped off was really insolvent.

744. In the result it was explained that these particular societies had really been reported upon by the Irish Agricultural Organisation Society, and really it seems to me that the natural answer would have been the statement "You have already done what you ask us to permit you to do."—But we had not done it.

745. You had done it?—No; the point is this, we were never asked to take steps; we were merely asked to report on these societies, and not to make these societies pay, which we could have done.

746. I understood Mr. T. W. Russell to say that you had recommended that the money should be recovered from them, should be called in from a number of the societies. There has been a misunderstanding, it seems to me?—At any rate, we ought to have known which the societies were, so that we could know what our responsibilities were. I have not the faintest notion which societies they are to this day.

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## *Die Mercurii, 22° Junii, 1910.*

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## LORDS PRESENT:

Earl of SHAFTESBURY.  
Earl of CROMER.  
Lord HERSCHELL.  
Lord WELBY.

Lord NORTHCOTE.  
Lord MACDONNELL.  
Lord MERSEY.

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### THE LORD MERSEY IN THE CHAIR.

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MR. GEORGE DUDLEY BARLOW is called in; and Examined as follows:—

*Chairman.*

747. I understand that Mr. Sim, who is not able to come to-day, desires to have some of his statements corrected?—That is so.

748. Will you tell us what the correction is?—I have prepared a short statement which, perhaps, I might read. Mr. Stuart Sim, who is absent on account of illness, saw me with the draft proof of his evidence, which he points out requires some slight alteration. In answer to Question 503, as the result of the Royal Commission which reported in 1874, two Acts were passed, each containing all the provisions relating to the two classes of Societies—Friendly Societies and Industrial and Provident Societies respectively. Industrial and Provident Socie-

*Chairman—continued.*

ties were first constituted as corporate bodies under the Act of 1862, 25 and 26 Victoria, Chapter 27, but previous to the Acts of 1875 and 1876, following the Royal Commission, the provisions generally of the Friendly Societies Acts applied also to Industrial and Provident Societies. It appeared rather from the statement made that the incorporation followed on the 1874 Commission, but the first incorporation of these bodies was in 1862—it was not quite clear. In reference to Question 510: The unlimited liability referred to by Mr. Stuart Sim was the proposed introduction of a clause in the Industrial and Provident Societies Bill to remove the limit of the amount of shares that could be

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Mr. G. D. BARLOW.

[Continued.]

*Chairman—continued.*

be held by any one member, and not "unlimited liability" generally. In answer to Question 516, the Societies Borrowing Powers Act, 1898, would not apply to the Industrial and Provident Societies Act in creating "unlimited liability" in the general sense, inasmuch as the purport of that Act provided that persons other than members might pay contributions or make deposits to societies under the Friendly Societies Act for the purpose of making loans. Question 517: It is only specially authorised societies under the Friendly Societies Act which are subject to the Societies Borrowing Powers Act which have unlimited liability in the general sense, and the application of the latter Act would not in itself be sufficient to give unlimited liability to societies under the Industrial and Provident Societies Act. In answer to Question 518 the unlimited liability there referred to is that of shares. Question 520: The unlimited liability referred to in this answer is also in respect of shareholding, and not unlimited liability generally.

748\*. Is that all the statement he desires to make?—That is.

*Lord Welby.*

749. Is that paper by Mr. Sim, or is it your paper?—I had a conversation with Mr. Sim, and it is drawn by myself in consequence of what he communicated to me after reading his proof.

*Earl of Cromer.*

750. I want clearly to understand Mr. Sim's views. Do I understand that in saying he had no objection to incorporation with unlimited liability under the Industrial and Provident Societies Act, he did not mean unlimited liability with regard to debts?—That is so—shares only.

751. But not in regard to debts?—No.

752. That is really not unlimited liability?—That is the correction he wished to make.

753. It is a very important qualification?—Yes.

*Chairman.*

754. But unlimited liability as regards shares would be equivalent to unlimited liability as regards debts?—Yes, it was the original provision in the Industrial and Provident Societies (Amendment) Bill which he was referring to which proposed to remove the limit of £200 as the amount any particular member might hold in these societies.

755. But if the shares, whatever they be, that are held by the individual are unlimited, that is to say, if any amount can be called up upon them, then that individual's liability for the debts of the concern is unlimited?—Yes; but under the Industrial and Provident Societies Act the limit is the same as in the Companies Acts. The word "limited" is used in regard to these co-operative societies in the same sense as in the Companies Acts.

756. I should like to ask you one question. I do not know whether your attention has been directed to it. Does it occur to you that there

*Chairman—continued.*

is any necessity for the creation of what is called in this Bill a central bank. If you have not thought about it I will not press the question?—It is more a question of the management of the particular societies.

757. When you speak of unlimited liability on the shares, do you mean what ordinary people understand by unlimited liability—that is to say, that any amount may be called up?—No, certainly not.

758. That the only limit is the limit of the man's pocket?—Certainly not. Under the Industrial and Provident Societies Act the limit there is used in the same sense as in the Companies Acts.

759. What is that sense?—It is limited to the amount of the shares.

760. That is not unlimited—that is limited?—Certainly.

*Earl of Cromer.*

761. I understand unlimited liability as regards debts, but I do not understand your signification of unlimited liability as regards shares?—It is as regards the number of shares.

762. A man may take any number of shares that he likes?—That is so. The present Bill seeks to amend the Industrial and Provident Societies Act.

*Chairman.*

763. What do you mean by the present Bill?—Mr. Sim referred to another Bill to amend the Industrial and Provident Societies Act.

764. Where is that Bill at present?—He referred to it in his evidence. It is going to be taken up by the Government, I believe. He stated so.

765. What is the object of it?—To amend the Industrial and Provident Societies Act; and one of the principal amendments that is required is as regards this question of limit. Section 4 of the Industrial and Provident Societies Act, 1893, provides that societies may be registered, and states in sub-clause A that no member other than a registered society shall have or claim any interest in the shares of the society exceeding £200. That is the limit they desired to remove altogether in the Bill as first drawn. But, as Mr. Sim stated, they have now withdrawn that, and it is to be limited to £300 instead of £200.

*Lord Welby.*

766. Is that the extent of any member's liability?—That is so, as shareholder, apart from deposits, of course.

*Chairman.*

767. I am sorry to say I have not got this in my head at all. I do not know what it is you are talking about. You mentioned some Bill I have not heard of before, and which you say the Government is promoting, or probably will promote. Is there any draft of that Bill to be seen anywhere?—Yes.

768. What is it called?—It is called the Industrial and Provident Societies (Amendment) Bill of this year. I could let you have a copy.

769. Do you think that it bears upon the subject

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[Continued.]

*Chairman—continued.*

ject that we are considering?—No. I referred to it in connection with what Mr. Sim was stating as regards unlimited liability. In his evidence he referred to that Bill, and it is only because he referred to it that I have said anything about it.

*Lord Northcote.*

770. Is this the Bill referred to by Mr. Sim in answer to question 522?—Yes, that is the Bill.

*Chairman.*

771. Section 4 of the existing Industrial and Provident Societies Act simply provides that no member shall have or claim any interest in the shares of the society exceeding £200?—Yes.

772. That means to say, I suppose, that he is not to take up shares to any extent beyond £200?—That is so.

773. But that has nothing to do with his liability on the shares?—No; but he is limited as a shareholder in that Act in the same way as in the Companies Acts.

774. One of the difficulties of registration under this Act is that the liability is limited. There is no difficulty of that kind under the Friendly Societies Act?—That is so. Section 21 of the Industrial and Provident Societies Act, I think, purports specifically to deal with that. It says: "The registration of a society shall render it a body corporate by the name described in the acknowledgment of registry, by which it may sue and be sued, with perpetual succession and a common seal, and with limited liability."

775. That must mean, I suppose, liability limited to the nominal amount of the shares?—Yes, the nominal amount that each particular member takes up. It is limited in that sense.

776. What do you say this Bill, which is apparently under the protection of Mr. Hobhouse, proposes to do?—The co-operative societies originally asked that this limit of £200 as the holding of any particular member should be done away with.

777. So that he may hold any number of shares?—Yes.

778. But his liability would still be limited to the amount of the shares that he held?—That is so. That is the confusion.

*Lord Welby.*

779. That is in the Bill now?—The Bill now stands at £300. They gave way on that point.

780. If Mr. Hobhouse's Bill were brought in would that limit be removed?—Under Mr. Hobhouse's Bill, instead of £200 under the present Act, it would be £300.

*Chairman.*

781. As I understand, the Bill originally provided that a man might hold any number of shares?—That is so.

782. But that is now altered, and he may hold any number of shares up to a nominal value of £300?—That is so.

783. So differing from the Act already in existence, which limits the holding to £200?—That is so.

*Earl of Cromer.*

784. In what respect, then, does that improve the security of the creditor?—I understand, if there is unlimited liability as regards debt, that, to a certain extent, strengthens the personal security given to the creditor, but I do not see how the particular proposal you speak of touches the question?—No, it does not.

*Chairman.*

785. I am not sure about that. If there is one rich man in a bank, as we are led to suppose there may occasionally be, he can take £300 nominal value of shares, and to that extent be responsible?—That is so.

786. Under the Act as it exists, he can only take £200, and cannot possibly make himself liable for more than £200?—That is so.

*Earl of Cromer.*

787. To that extent it does go further?—Yes, to that extent.

*Lord Welby.*

788. Therefore, if the society were in great difficulties, and ran into debt, no member could be called upon for more than the nominal amount of his shares?—That is so.

*Chairman.*

789. That is as the Industrial and Provident Societies Act exists at present, the limit being £200?—Yes.

790. If Mr. Hobhouse's Bill gets through, the limit will be £300.—Yes.

791. Under the Friendly Societies Act there is no limit at all?—That is so.

*The Earl of Shaftesbury.*

792. I understand you are here to-day to say that whilst Mr. Sim said he had no objection to unlimited liability, he meant not as regards debts, but as regards shares?—That is so.

793. Then he would go further even than this new Bill you speak of would provide; he would not even limit it to, say, a nominal sum of £300; but would leave it unlimited?—Yes.

*Chairman.*

794. I do not think Mr. Sim intended to make any such recommendation?—There was so much confusion, I think Lord Shaftesbury asked the question: "Have you any objection to the principle of unlimited liability being introduced by amendment into the Industrial and Provident Societies Act?" and Mr. Sim understood that he referred to the unlimited liability that I have spoken of; that is, the withdrawal of the limit as to the number of shares. That, I understand, was what was in his mind?

795. I never understood Mr. Sim to approve of unlimited liability in connection with the Industrial and Provident Societies Act?—No, that is quite clear.

796. How it is defended under the Friendly Societies Act, and is indefensible under the other Act, I do not quite know?—With great respect I should say it was not defended under the Friendly Societies Act; it has got in by a side wind.

797. The

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[Continued.]

*Chairman—continued.*

797. The suggestion, I understand, is that Mr. Sim did not understand the question in the way in which the noble Lord putting the question intended it?—That is so.

*Lord Welby.*

798. In an answer about this Bill Mr. Sim said the Bill, as it was originally drafted, was very large, and he ended by saying that it had been watered down since it first saw the light, and it was not a very big Bill. I understand the object of this Bill at present is merely the extension to £300, or are there other provisions in it?—There are other provisions as to the registration of mortgages, and so on.

799. But not concerning us now?—That is so.

*Chairman.*

800. In your opinion, are the existing rules or statutory provisions sufficient to enable a complete and satisfactory supervision of the banks that already exist? It has been suggested to us that some of them are badly managed, and possibly are not solvent by reason of bad management—whether that is true or not I do not know—but I should like to know from you whether, in the opinion of your office, the rules and statutory provisions for the inspection of the accounts of these banks are sufficient?—The Committee will understand that that opens a very wide question. The question how far friendly societies may be under the protection of the Government, and how far they should have the guarantee, as it were, of the Government by reason of their inspection has been a subject which has been dealt with since friendly societies came into existence more than 100 years ago, and the policy of legislation always has been, as I understand it, to say that the Government Department is not responsible in any way for the management of these societies.

801. No, I was not talking about the responsibility?—I was coming to the point you put. As the law now stands the greatest protection given to them is insisting upon a proper audit. I have brought forms of returns with me. It is the opinion of the Office, and I know of Sir Edward Brabrook when in charge of it, that Sections 26 and 27, providing for the audit, are two of the most important provisions of the Act in regard to the protection of these societies. These two sections are very exhaustive, so far as the audit is concerned. Section 26 provides that "Every registered society and branch shall once at least in every year submit its accounts for audit, either to one of the public auditors appointed as in this Act mentioned." The Act does give power to the Treasury to appoint public auditors, and a certain number of gentlemen are every year appointed under that Section, and it is optional for these societies to have their accounts audited by these public officials, or by "two or more persons appointed as the rules of the society or branch provide." Then it goes on: "The auditors shall have access to all the books and accounts of the society or branch, and shall

*Chairman—continued.*

examine the annual return mentioned in this Act, and verify the annual return"—which is a document which has to be sent to the office—"with the accounts and vouchers relating thereto, and shall either sign the annual return as found by them to be correct, duly vouched, and in accordance with law, or specially report to the society or branch in what respects they find it incorrect, unvouched, or not in accordance with law." That report, of course, goes to the society, and a copy of that report has to be sent with the annual return to the central office, so that it comes before the Government Department, and is dealt with on its merits. Then Section 27 goes on to provide the particulars that the annual return shall contain, and there is prescribed under the Act a special form of return applying to specially authorised loan societies. I have brought with me prints of these forms. I do not know whether the committee would care to see them. (*The witness produces the forms of return.*) You will see the great detailed information these societies have to give each year with regard to their finances, and this return has to be signed by the Treasurer, by the Secretary, and by the two Auditors, or by a public Auditor, and the certificate that they have to give follows the words of the Section which I have just read.

802. Then there is Section 28, which also deals with it?—Section 27 deals with the annual return itself. Section 28 refers to the valuation, and that does not apply to these banks.

803. Section 28 provides for a quinquennial valuation of the assets?—That does not apply to these banks.

804. That would be more appropriate, I suppose, to a friendly society pure and simple?—Yes, as to an ordinary insurance society.

805. It does not really affect the matter we are considering about banks or co-operative stores?—No.

806. You have no quinquennial valuation there?—No, but the point here is that the returns from every society in this country are now enforced by prosecution if necessary; each year every society does make its return.

807. In your opinion do these provisions work satisfactorily? Are they sufficient for keeping the banks, or whatever they are called, properly administered?—Yes.

808. You think they are?—Yes.

809. It has been suggested to us that some of these banks are so badly managed that they may possibly be insolvent?—That is quite possible.

810. Of course they may be in that condition if they make improper advances, but I do not see myself—and I should like you to tell me if I am wrong—how the law can be improved for the purpose of getting any better supervision. This supervision appears to me to be sufficient?—That is so. I should say the position is that these are trading societies, and the conduct of their trading must be left in the hands of the individuals.

811. These banks are organised under what is called the special authority coming from the Treasury?—Yes.

812. Has the Treasury made any rules with reference

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*Chairman—continued.*

reference to the audit of such societies?—No special rules.

813. Has the Treasury any power to make rules?—The regulations they have power to make would be only under the Act, and they would only be within the powers laid down in the Act, and so far as audit is concerned that would be governed by this Section 26, and this form is the one prescribed pursuant to that section.

814. When the special authorities are used is it not the practice to specify the sections of the Act which are to apply to the institutions created under the special authorities?—Yes.

815. Who is it that selects the clauses of the Act which are to apply?—The Lords of the Treasury.

*Lord Welby.*

816. You say that you think the present rules as to audit are sufficient?—Yes.

817. Are you quite satisfied on this point? I see in this form you have given us: "A copy of the auditor's report, if any." That appears to me to bring at once very great limitations upon the utility of the return, and from the evidence given to us I have gathered that there is no obligation on the societies to send their accounts for audit or to invite an audit. Therefore, if a society has been badly managed, it would not be eager for the audit, and those are just the societies that want it?—But they must have an audit.

818. What is the meaning of "the auditor's report, if any"?—That is under Section 26, which provides that if the accounts are not according to law they must report. Sub-section (2) says that they shall, alternatively, either sign the annual return as found by them to be correct, or specially report. Those words on the form provide for the special report if the accounts are incorrect, unvouched, or not in accordance with law.

818.\* It appears to me if a society makes a return, as it is obliged to do under this section, and there is no rule for an absolute check upon it, that the return is only the statement of the society, and there is no guarantee whatever as to the correctness of the account, until such time as an independent person has certified it. Is it the case that there is an independent auditor who audits these accounts every year?—No; it is the auditors appointed by the society.

819. I want to know whether they do appoint an auditor, and whether there is an independent auditor. A society has the power of appointing its own auditors. There is no limit upon that. They may appoint one of their own men, and I suggest it is not an independent audit?—They are appointed in the same way that companies appoint auditors.

*Chairman.*

820. I think possibly the answer is this: That these rules have to be authorised by the Registrar?—That is so.

821. And the Registrar would take care, I should think, that the rules are so drawn as to make the audit an independent audit?—It depends upon what you mean by "independent." The people who handle the money are the secre-

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*Chairman—continued.*

tary and the treasurer, under the supervision of the committee of management.

822. The section says: "Two or more persons appointed as the rules of the society or branch provide." I suppose it would, as a rule, mean two of their own body. It would not mean some independent auditor?—Not necessarily. They are independent in the sense that the auditors are not the people who handle the money.

*Lord Welby.*

823. Even then I do not see that that is provided for. It may be. But that is a power given to the society itself, to nominate its own auditors. Apparently there is no check upon whom they may nominate?—The Legislature has never gone so far as to suggest any independent auditor.

824. As we are now being asked for a very considerable extension of power, are you satisfied that such an arrangement is sufficient, because I confess, from what I have heard in evidence, it does not appear to me to be so?—That is a very wide question to answer.

825. Is it a very wide question? You probably have some experience of it. What is your experience? Who are the auditors they appoint?—Generally speaking, the audits are remarkably well done considering the class of people the auditors are taken from.

826. I want to know who the people are?—They are just anybody.

827. And chosen by the society?—Yes.

*Chairman.*

828. Not accountants?—No.

*Lord Northcote.*

829. Is it a common case for a society to nominate their own auditors?—As a rule, yes.

*Lord Welby.*

830. I have understood one objection to the provision that there should be a public auditor is that there is no provision for payment?—That is so.

831. That is one of the objections that now occur, and which will probably have to be considered as to whether there should be a public auditor. I confess at present as it stands it appears to me that the audit provision is not sufficient, and I should like, before I could form an opinion about that to have some information as to what these auditors' reports are. I should like to see a sample of them?—I could very easily bring some before your Lordship.

832. It is very important, because one knows, from very little experience of this kind of thing, that where a society has considerable powers, considering their means, if the auditor is not independent, you have very little security?—Now we are driven to the point that this is a Friendly Societies Act, and does not deal with banks. Primarily, the object of the Act is to deal with friendly societies or clubs, not banks.

*Chairman.*

833. I have the *pro formâ* rule of one of these credit societies, and I find that Rule 17, on page 23, provides for the auditing of accounts very much

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*Chairman—continued.*

much as the Act of Parliament does. "The committee of management shall once at least in every year submit the accounts, together with a general statement of the same, and all necessary vouchers, up to the 31st of December then last, for audit, either to one of the public auditors appointed under the Friendly Societies Act or to two or more persons appointed as auditors by the members at the annual general meeting in each year, and shall lay before every such meeting a balance-sheet," and so on. That is an audit very much the same as an audit of any public company?—That is so.

834. The shareholders of any public company appoint their own auditors?—That is what I rather meant to convey to Lord Welby.

*Lord Welby.*

835. You said also that there is no provision whatever that the auditor shall be even an accountant?—No, but I do not know that there is any provision in the Companies Act which says that; though, as a matter of convenience, as there is money there, they generally do so.

*Chairman.*

836. I do not know of any provision in the Companies Acts which says that the auditors must be accountants, but they generally are?—That is so. As to the persons who are auditors, this Act shows one of the inconveniences of having banks tacked on to an Act dealing with friendly societies. This Act deals with such bodies as the Independent Order of Odd Fellows Manchester Unity, the Ancient Order of Foresters, and the village clubs, and you are at once met with the difficulty that arises in forming banks under an Act passed for some other purpose. The Committee will understand that there is nothing in the Friendly Societies Acts, as originally constituted, to cover banks. It is only done under these special authorities. This question of audit is one that necessarily arises.

SIR GEORGE H. MURRAY, G.C.B., is called in; and Examined as follows:—

*Chairman.*

843. Have you prepared anything in the nature of a proof?—No, my Lord.

843.\* I should like to tell you what, as far as we understand, the objects of the promoters of this Bill are. The banks at present existing are registered under the Friendly Societies Act, and by virtue of what is called the special authority. They are unlimited in this sense, that the members of the society are responsible for debts to the whole extent of their estate. In the great majority of cases that responsibility is of no consequence, because the members of the banks are people without money; but it is said that sometimes there is a responsible man connected with the bank, and that is of some advantage. What they want is to retain that principle of unlimited liability, and at the same time to get, under the Friendly Societies Act, power to add to the banking

*Lord Welby.*

837. Apart from the difficulty of payment, and putting that aside, would you like to see it made obligatory to send these accounts to a public auditor?—There, of course, comes in a question of expense.

838. Putting that aside for a moment, as a matter of principle, if that could be provided for, would you like to see these accounts so audited?—As a matter of principle, yes.

*Chairman.*

839. But that would be a very expensive proceeding; these little banks would be ruined by an expense of that kind?—Yes; I answered the question apart from the question of expense. There is a power of inspection under Section 76, of which the Committee will probably be aware. That section provides that one-fifth of the members may apply for the appointment of an inspector, and that inspection then takes place under the direction of the Chief Registrar of Friendly Societies.

840. And there is power, I think, under the Act, for the Registrar to appoint a Commissioner, or whatever he may be called, to examine into the affairs of a friendly society?—Yes, that is the inspector.

841. I remember very well thirty years ago Lord Sheffield (he was not Lord Sheffield then) coming down to Liverpool and sitting there for weeks holding an inquiry into the affairs of the Liver Society?—Yes, I remember hearing of that, but that is on the application of the members of the society, and not at the instance of the Chief Registrar.

842. There must be a representation by a certain number of members to the Registrar?—Yes, the reason for that being, of course, that the Legislature says that the management of the societies must look after the management themselves. It does not give us power to step in and make inquiries.

*Chairman—continued.*

business a co-operative store, either unlimited as to the scope of its trading, or limited to agricultural purposes if it is possible to limit it. That is what they want. It has been suggested by Sir Horace Plunkett that it would be better, in order to attain the object in view, to amend the Friendly Societies Act so as to permit co-operative trading in conjunction with banking rather than re-register all the societies under the Industrial and Provident Societies Act which permits the two to be joined together, and to introduce into that Act the principle of unlimited liability which does not at present exist. I think the way in which we want to you to help us is to tell us whether your experience leads you to the conclusion that it is undesirable to allow the two things to be worked together—that is to say, to make a provision in the Friendly Societies Act that you

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*Chairman—continued.*

you may have the two classes of trading carried on at the same time by the same society—banking and co-operative trading. Is there any objection to it?—It seems to me that the alternative lies between grafting a new provision on the Friendly Societies Act, or grafting a new provision on the Industrial and Provident Societies Act.

844. That is exactly what it is?—Our opinion at the Treasury, on the whole, is that it would be better to register these societies under the Industrial and Provident Societies Act than under the Friendly Societies Act; that the anomaly of an unlimited industrial and provident society carrying on banking business and trading would be less, on the whole, than the anomaly of an incorporated friendly society carrying on trading, which it cannot now do as well as the banking, which it can do to a limited extent.

845. When you use the word "incorporated," you mean, I suppose, "registered"?—No, my Lord.

846. Because a friendly society is not incorporated?—I meant incorporated with unlimited liability.

847. Incorporated under what Act? As I understand, under the Friendly Societies Act the societies are not incorporated. It appears to me to make no difference; but still it is so, they are not incorporated. Under the Industrial and Provident Societies Act they are incorporated?—Yes.

848. It is suggested that there is some charm in incorporation; but, for my own part, I cannot see why the trustees under the Friendly Societies Act are not equivalent to incorporation. I see no difficulty at all about it. When you use the word "incorporated" I want to know whether you mean "registered" or do you mean really "incorporated"?—I mean incorporated with unlimited liability. Registration under the Industrial and Provident Societies Act is equivalent to incorporation, but with limited liability.

849. May I put a difficulty to you? How many of these societies there are in England carrying on the two businesses under the Industrial and Provident Societies Act I do not know, but there are a great many in Ireland carrying on the banking business and registered under the Friendly Societies Act. Now it occurs to me that it would be a very great and grave difficulty if you had to re-register all those societies under the other Act?—It would give them a certain amount of trouble, I imagine; but I do not think there is any great difficulty in it.

850. Do not you think that it would disturb them and make them uneasy, and induce them to wonder why, if they were told: "Your society has been going on for years and doing very well; but it must be registered under another Act of Parliament, in order to get something more"?—It might.

*Earl of Cromer.*

851. And Sir Horace Plunkett pointed out that the greater portion of the members of these small banks were very ignorant to the extent of being illiterate and not able to read and write, and the result was that it would be extremely

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*Earl of Cromer—continued.*

difficult to make them understand the alteration?—That seems conceivable. I cannot say anything about that. But the object of incorporation, I imagine, is to provide that there should be a more effective legal remedy for the creditors than they have now. Under the Friendly Societies Act they must proceed against the trustees, and then if they want any more property than the trustees have got they must go for the individual members of the society in turn, or for the whole body of them. In the case of an incorporated society, I imagine, they could proceed against the officers of the society.

*Chairman.*

852. They proceed against the incorporated body, and get their judgment against such and such a society, and then they would be able to issue execution against the assets of that society and get them wherever they could. No doubt if there were incorporation the procedure, in the event of a creditor desiring to get his money, might be simpler?—Yes, I believe that is the object.

853. I do not at present understand what the particular advantage is of having recourse to the Industrial and Provident Societies Act?—I think the object that these banks have in view is more germane to the objects of the Industrial and Provident Societies Act than to the objects of the Friendly Societies Act.

854. Can you tell us how?—In respect of trading, at any rate, I think that is clear.

855. Yes, that is obvious, because you cannot do the trading under the Friendly Societies Act. The suggestion is that there should be a provision inserted in that Act, or that there should be a new Act enabling societies registered under the Friendly Societies Act to trade as well as to bank?—I think that would be a greater anomaly than the other, because it has been always maintained from the very beginning of friendly societies that trading was not to be one of their objects.

856. No doubt. But would the anomaly be of any consequence?—No, I do not know that it would, but when you have to choose between two anomalies I thought the other one seemed smaller.

857. I will tell you what I understand is the difficulty in the way of your suggestion. If these societies were all to be registered under the Industrial and Provident Societies Act, they would not have that which they now have, namely, unlimited liability. They would not have it without some legislation, and we are told—I do not know on what foundation—that it would be very difficult to get through the House of Commons a Bill in which there was a provision for unlimited liability. At present the unlimited liability under the Friendly Societies Act exists, and you want no legislation; whereas if you register the societies under the other Act you want legislation. We are told that it would be very difficult indeed to get such a Bill through Parliament?—I was not aware of that. It is a matter for consideration. But the alteration in the law would be a comparatively simple one; it would simply provide that under the Industrial and Provident Societies Act

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*Chairman—continued.*

Act a society could be registered with unlimited liability. The unlimited liability, of course, would have to be very carefully safeguarded, but subject to that I do not see any great objection to it.

858. That was the view I confess I took at the first, but I was rather shaken by what Sir Horace Plunkett said that you would upset the minds of all these people if you went to them and said: "You have got to register your society afresh under some other Act of Parliament." Do you see any fundamental objection to permitting these thrift banks to be carried on together with co-operative trading?—No, subject to the safeguards which I have alluded to.

*Lord Welby.*

859. What safeguards?—On the question of unlimited liability.

860. That is to say, under rules approved by the Treasury.—Yes; and I think you would have to restrict very closely the area in which these unlimited societies could act. It would not do to have them doing business all over the country.

*Chairman.*

861. No, it is not suggested that they should. Are you in a position to suggest to us how the area should be limited?—I think it should be limited by what I may call the reciprocal knowledge of each other's affairs which can be acquired by the members of a society. They should all know what each of the others is doing, and probably know each other personally.

862. Would you limit it by geographical area or by numbers of members?—Both, I think. You might take a parish as the unit, or parts of several parishes with a limit of population.

863. How would that be done—by the rules, or how?—By rule; but I think it would probably be better to put some provision of that kind in the Act, and not leave it entirely to rules.

864. I want to know whether it should be statutory or done by rules?—Statutory in the first instance, I think, certainly.

865. And then, possibly, rules made by virtue of the statute?—Yes.

866. Would those rules issue from your office?—No; the rules would be made by the society itself, with the approval of the Registrar.

*Lord Welby.*

867. And would they be submitted to you then, or does it not want Treasury sanction?—I am not quite sure whether the Registrar authorises the rules himself or whether he submits them to the Treasury. Probably, in the case of a new institution of this kind, a model set of rules would be framed.

*Earl of Cromer.*

868. I understand substantially the case stands in this way: You think, as an academic question, it would be certainly less anomalous to graft on to the Industrial and Provident

*Earl of Cromer—continued.*

Societies Act if you have a clean sheet of paper and nothing already done?—I think so.

869. As a mere academic question I am inclined to agree with you; but we have to attach great importance to the evidence of Sir Horace Plunkett, who has had experience of the actual practical working of the system which none of us have had. I do not understand generally from what you have said, although you preferred the grafting on to the Industrial and Provident Societies Act, that your objections to grafting on to the Friendly Societies Act are fundamental and radical?—No, I cannot say that they are. I looked at it simply as a choice not of evils, but alternatives.

870. But you have not any strong and fundamental objection to the other?—No.

871. The question is how far the practical argument is to weigh?—Yes.

872. I do not know whether you could give us any useful evidence on another important point raised in the course of the examination of Mr. T. W. Russell and Sir Horace Plunkett, and that is as to whether these co-operative trading societies should be limited to selling small articles and substances connected with agriculture, or whether there should be general trading. Have you any opinion on that, or does it come into the scope of your position at all?—I gather that the intention of the Bill was rather to promote agricultural trading in small bodies.

873. That is quite true; but the draft, as we have it here, gives general trading powers?—Yes.

874. It has been pointed out to us that it seems somewhat illogical to allow co-operative trading as regards rakes, hoes, ploughs, and those kind of things, and not allow it as regards tea, coffee, and other things?—I do not see any great objection to such an extension of their operations.

875. The other side of the question is that whereas there would be very strong opposition from the small traders to general trading, there would be less opposition to agricultural trading?—I have not considered that point.

*Earl of Shaftesbury.*

876. I gather that you really have a preference for grafting on the Industrial and Provident Societies Act rather than on the other Act?—Yes.

877. A distinct preference?—Yes.

878. There is the other question, which I do not suppose comes within your province at all, and that is whether you want the area restricted in the case of unlimited liability. I quite understand that the area of a co-operative society for banking business should be restricted, but I do not know whether trading can be restricted to an area?—No, I see it would be rather difficult.

*Earl of Cromer.*

879. If a man comes in to buy a thing you could not ask him whether he came from one parish or another; it would be impossible?—That is so.

880. There

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[Continued.]

Lord Welby.

880. The Treasury is mentioned in the rules very often. Are the rules frequently made by the Treasury, or have you laid down at different times certain general rules. You said just now you thought a model rule would be submitted to you, and you would approve it, and that would hold good for any similar society afterwards. Is that the method in which the Treasury administer their responsibility?—I think so, generally.

881. And therefore, I suppose, they do not very often come to you?—Not very often.

882. I suppose when those rules come before you, you consider them probably in consultation with the Chief Registrar?—Yes.

883. It has been suggested to us that a Bill with all these provisions in it is a somewhat cumbrous method of proceeding, and the object might be attained in a much simpler fashion. I observe from the evidence which has been given to us by the Chief Registrar, that he seems to look with considerable hesitation, to say the least of it, upon the Bill. Do you think a case is made out for a Bill with the somewhat cumbrous, or at all events, numerous details contained in the one before us?—My impression was that it could be done in a very much simpler form in the manner I have suggested, namely, by permitting registration under the Industrial and Provident Societies Act with unlimited liability, and I think that would give all the powers wanted.

Earl of Cromer.

884. That would require an Act?—Yes. I was suggesting that this Bill might be limited to a provision of that kind, and nothing more.

Lord Northcote.

885. That would mean the withdrawal of this Bill and the drafting of a new Bill to amend the Industrial and Provident Societies Act?—Unless you can convert this Bill or cut it down.

Earl of Cromer.

886. In the same way, if it was possible to engraft on to the Friendly Societies Act, it would mean withdrawing this Bill, and having a second Bill, allowing that grafting?—Yes, allowing an incorporated society to work under the Friendly Societies Act.

Chairman.

887. So that in any event, according to your view, the proper course would be to withdraw this Bill altogether, and to introduce another one which would have one of the two simple objects which you mention?—Unless this Bill could be amended to that extent.

888. What I understand you to mean is that a very simple Bill dealing with one or other of the two alternatives which you have mentioned would be sufficient?—I think so.

Lord Welby.

889. You seem to think on such a question as that there should be a legal definition to guide

Lord Welby—continued.

the formation of the society?—Yes; I think the restriction of the area ought to be statutory and to be carried out in rules.

890. I attach considerable importance to the provision for audit being satisfactory. Do you think, as they stand at present, the rules as to audit are such as to provide security, which you would approve?—I had not considered that subject. I am not sure that they are. One would naturally prefer a public auditor for an institution of this kind.

891. There you come up against expense?—Yes.

892. Anyhow, when these extended powers are being given, do not you think that it is desirable in the interests of the public generally that there should be some sufficient check. I do not want to carry the point further in any punctilious spirit, but there should be some provision for such an inspection, or such an audit as would secure absolute detection of irregularity?—I quite agree.

893. I do not see in the rules, as they at present stand, that there is any sufficient security for that, and I would ask you whether you do not think that while we are dealing with it, at all events, we ought to be satisfied upon that point?—Certainly, I think it is very important.

Earl of Cromer.

894. But the question of expense comes in?—Of course there is always that question in the background.

Lord Welby.

895. It appeared to me with such very beneficial institutions as these promise to be, that there would be a right to get security, so that they are not discredited by malfeasance on the part of any of them?—Yes.

896. We have been told in Ireland about the report made by the Irish Agricultural Organisation Society, who made an examination, though I believe they had no power to do so. They got the information that 26 societies were well administered financially, that 36 were fairly so, and that 46 were, to say the least, indifferent. If there is anything in that—and I am not saying that is established—and if that is the only evidence we have had as to the financial working of this, does not such a statement as that which is made upon a report by a responsible society point to the fact that there ought to be some satisfactory provision for a check upon them?—Yes, certainly.

897. As an old Treasury man, I hardly like to ask the question, because it involves other questions; but if you attach importance to that point, would you carry the importance of it to the extent of the expense being borne by the public? I want to know the importance you attach to such an examination?—I think it would be very difficult to justify a charge on the taxpayer for auditing the accounts of a friendly society.

Earl of Cromer.] Would it be easier to justify putting it on the rates?

898. It

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[Continued.]

Lord Welby.

898. It may not be any easier; but supposing it could be put on the localities interested?—They are more interested in the society than the general taxpayer.

899. Fully recognising, as I do, the very great objections to making a public charge for any audit, would you be satisfied to pass by this very important question on the other side, and extend powers and give a larger scope to these societies, with the knowledge that the check upon them now in your own mind is not satisfactory?—I think something might be done, perhaps, by insisting upon the publication of accounts, which would not cost very much. That, I think, is a necessary provision.

Chairman.

900. I think there is a provision in the Friendly Societies Act that where banking is carried on a sort of balance-sheet shall be printed and hung up in the place where the business is carried on?—Yes, that is under the Industrial and Provident Societies Act, I think.

901. I thought it was required, but I am not sure whether it was under the rules under which these societies are registered?—I think it is under the Act.

Lord Welby.

902. It is something to insist upon a balance-sheet being hung up, but have you always such confidence in people who draw up a balance-sheet that they will draw up a true balance-sheet? An old chief of yours used to have a doubt about setting a cat to watch the cream. Are you satisfied about the cat watching the cream?—No, I am not.

Lord Northcote.

903. With regard to the question of these areas which these societies are to cover, I am not sure if you said you would only define the area by statute or also have only a limited number of population?—I am not sure that it would be necessary to put that into the statute, but I think there ought to be some provision that the area is to be strictly limited.

904. As regards the area, yes; but it would be rather difficult to fix a limit of population or numbers?—Yes.

905. In a thickly peopled district you might have a great number of members. You would not attempt to fix the number of members who should belong, but only the area?—I was not thinking of the number of members so much as the district over which the society was to operate.

906. That would vary in different parts of the country?—Yes.

907. With regard to Lord Cromer's question about the trading that these societies might do, do you think it would be at all easy to define by Act of Parliament to what branches of trade they should confine themselves?—No, I should think it would be very difficult. Under the present Act I believe the trade or business to be carried on is specified in the rules.

Lord MacDonnell.

908. Have you formed any idea as to the number of members who ought to compose a society?—No, I cannot say that I have thought of any exact number. What I had in my mind was that they ought all to know each other, and each other's affairs, and be closely associated.

909. That would be the guiding principle?—Yes.

910. In England I am not aware of any local geographical area. In Ireland you are familiar with the expression "Townlands"?—Yes.

911. You might possibly by such a definition as that provide that the society should cover one or more townlands, and be limited by the rules to a particular number?—Yes.

912. I am not aware that there is anything to help you in England in that direction?—There is the area of the parish.

913. The parish would be very big?—It might be.

914. In Ireland a parish would be very big. It would be quite impossible in that area for each member to know something about every other member. It is quite impossible that you could apply it to a parish in Ireland?—Yes.

915. Because a parish is probably sometimes 40, 50, or 100 square miles?—That is why I proposed the concurrent limit of population.

916. Am I right in thinking that on the whole you are favourably disposed towards the objects of the proposals of this Bill?—Yes.

917. The difficulty is how these objects are to be carried out. You are of opinion that it would be better if it were possible that they should be carried out by an amendment of the Industrial and Provident Societies Act, rather than an amendment of the Friendly Societies Act?—Yes.

918. And the reasons why effect cannot be given to that, in the opinion of some, are twofold: First, as I understand it, the difficulty of getting an amendment of the Industrial and Provident Societies Act through Parliament, and, next, the difficulty of making people understand the reason for the change of registration and the difficulties connected with it. Looking at the last of these difficulties first, have you had a recent occasion to examine these forms of rules that have been given to us of credit societies?—No, I have not.

919. You are not able to say whether these rules would be practically sufficient under the Industrial and Provident Societies Act?—No, I cannot speak about that.

920. If you had been satisfied I suggest there would be no difficulty in re-registering societies providing they continued to operate under practically the same rules?—Yes.

921. That is a thing which is worth examining?—It did not occur to me that there would be much practical difficulty in re-registration.

922. It does not occur to me either that there would be much practical difficulty. Then in regard to getting an amendment of the Industrial and Provident Societies Act through Parliament, do you think there would be very great difficulty? It would hinge, I suppose, on the question of unlimited liability. Do you think that Parliament would

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would be less unwilling to engraft the principle of unlimited liability on to the Industrial and Provident Societies Act than they would be to engraft incorporation upon the other Act?—I should have thought they would have preferred the amendment of the Industrial and Provident Societies Act.

923. If the Government took up the question, would not there be every reason to expect that the Bill would pass through Parliament?—I should think so, but I cannot speak definitely about that.

Lord Northcote.

924. I think we were told on that point that the Government would only take it up if it was understood that it was a non-contentious Bill?—I am not aware of any proposal that the Government should take up this Bill.

Lord MacDonnell.

925. Mr. Hobhouse's Bill?—That is another Bill altogether.

Lord Welby.

926. That is a Bill which extends the liability to £300 in shares?—I think it is something of that kind. The present limit is £200 in shares, and I think one of the objects is to extend it.

Lord MacDonnell.

927. May I ask you whether we might expect the Government to take up the amendment of the Industrial and Provident Societies Act to this extent, namely, giving unlimited liability to these small societies?—I should not like to say anything about that, because I do not think the question of the Government taking up this Bill, or carrying a Bill with this object, has been considered at all.

Earl of Cromer (to Mr. Wolff.) Could you tell us whether under the Raiffeisen Rules the general cost of audit in Germany is to any extent thrown upon the general taxpayer, and generally how far the Government interferes in the audit system?

Mr. Wolff.] No, not at all under the Raiffeisen system, but I have listened with very great attention to the question Lord Welby put about inspection, and I think that is a weak point in our system. What Mr. T. W. Russell instanced the other day, naturally follows from the want of their having a committee of inspection in the society and a committee of inspection outside the society. In every other country now they have passed a law. It is only an ordinance in France, but everywhere else it is a law—that there must every two years be an official inspection and audit of the way the business of the society has been carried on. But they give the option to the societies whether they will have their own collective inspection committee, or whether they will have a Government Inspector. If they go to the

Government, then the Government pays for it; at least, the Government charges such a low rate that practically the major portion falls upon the taxpayer: but societies of good unions, like the Raiffeisen and Schuttsche-Delitzsch, will not have anything to do with the Government Inspector. The union appoints its own inspector, who charges a certain tariff price which falls entirely upon the societies, and they consider that the inspection and audit is worth very much more than a Government Inspection and audit, which becomes a pure formality or else a worry.

Earl of Cromer.] Still, I understand in Germany and France if they do not appoint their own inspectors the Government inspects for them.

Mr. Wolff.] Quite so.

Witness.] May I mention one point which arises on Clause 4, Sub-clause (1), of this Bill if it goes forward which says—"A Thrift and Credit Bank may, if the rules of the society so permit, borrow money from any County Council." As far as I know a County Council has no power to lend to an institution of this kind, and as the Bill does not give it any power it might be as well to strike out "or any County Council."

Chairman.

928. We have already discussed that to some small extent, and I think we were all of opinion that it was very unsatisfactory that there should be any provision of that kind in the Bill at all, and Mr. Wolff, when he was in the chair, admitted that it was not a matter of any importance?—Yes.

Lord MacDonnell.

929. If permission to trade be given, would you limit the right to buy to members of the particular society?—Yes, I think so.

930. Would you allow members from another society, B, to come to purchase their requirements at the store of society A, or make the trading in that store restricted to the members of society A altogether?—I thought the trading was intended to be purely co-operative, limited to members of the society.

Lord Northcote.

931. The members of the society would include depositors?—Yes.

Lord Welby.

932. You said with regard to trading, there was a question whether it might be limited to agricultural purposes in an agricultural society. It has been pointed out to us that however desirable that might be it would be beyond human power to distinguish general trading from agricultural trading. But I rather gather from what you say that you think it is hardly worth while attempting to make the distinction?—I think the difficulty of distinguishing would be very great, and perhaps it is hardly worth while making it.

933. I understand

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THE RIGHT HONOURABLE SIR HORACE CURZON PLUNKETT, K.C.V.O., is again called in; and further Examined as follows:—

*Chairman.*

933. I understand you wish to add something to your evidence?—Yes, I have only this morning learnt what the attitude of the Co-operative Union would be towards the proposed introduction of unlimited liability into the Industrial and Provident Societies Act. They would oppose it.

934. What is the Co-operative Union?—The Co-operative Union is the central co-operative federation of, I suppose, the largest trading organisation in the United Kingdom. It is the Central Union of all the Co-operative Societies.

935. Do you mean that the Army and Navy Stores has anything to do with it?—Not at all, not the Army and Navy Stores.

936. They profess to be co-operative?—They have a co-operative name. I mean the working men's co-operative associations, which I should think rank in importance with the friendly societies and the trades unions, and are one of the great organisations of this country, perhaps one of its kind the largest organisation in the world. They are a body so strong politically that any attempt to pass legislation through the House of Commons which they opposed, at a time when controversial legislation is hardly practicable, would be merely futile. It would be a waste of time to introduce an amendment into the Industrial and Provident Societies Act that the Co-operative Union opposed. The Government might introduce it; no private Member of Parliament would undertake such a Bill, I should think.

937. Then which of Sir George Murray's two alternatives do you think is the better?—I have just come in. I do not know what they are.

938. They are the alternatives that have been already before us: First, of using your alternative, that is to say, of leaving the societies as they are at present registered under the Friendly Societies Act and amending the legislation by enabling the societies to carry on the two businesses of banking and trading together?—That is the one I favour.

939. The other alternative, which Sir George Murray seems to prefer, is that of enabling these societies to carry on the two businesses with unlimited liability under the Industrial and Provident Societies Act?—I prefer the former alternative which is proposed in Lord Shaftesbury's Bill, firstly on its merits, and secondly because I have always thought the other would be extremely difficult to get through the House of Commons, and I now know it would be impossible, because the Co-operative Union must be listened to when there is any proposal to change the structure, and this is a complete change in the structure of the Industrial and Provident Societies Act.

*Earl of Shaftesbury.*

940. Do not you think there would be equal opposition to the other proposal? To begin with,

*Earl of Shaftesbury—continued.*

you have a section in Ireland very dead against any trading powers whatsoever being given to co-operative societies, and if you propose to add to the proposed co-operative societies trading powers, banking, and if in addition you have the Treasury very much favouring the other alternative, do not you think it is equally impossible to do anything?—As far as the opposition that you have in your mind goes it will be equally strong against any proposal we may make on behalf of farmers' co-operative societies. I do not think there is anything to choose between the two methods, but I was looking at it rather from an English point of view, and I think there would be no co-operative opposition to your proposal, whereas there would be to Sir George Murray's.

*Lord Herschell.*

941. Why would there be no co-operative opposition to this other proposal?—No co-operative opposition because there is absolutely no ground for it.

*Earl of Cromer.*

942. But would not the people interested in the Friendly Societies oppose? Are not they two distinct bodies?—Yes, but the Friendly Societies already have agreed to have their Act amended in order to make special provision for a very limited but very important class of societies, that is the Thrift and Credit Banks, whose powers it is now proposed to enlarge.

943. Do you mean substantially that the friendly societies are already acting on the principles which you wish to have adopted?—Yes, they are acting on the principle of unlimited liability. The vast majority of the friendly societies would not be concerned at all with the addition of trading powers, and it would not apply to them. It only applies to a restricted body that happens to be, in the general scheme of rural development, extremely important. But as I say it is a very restricted class and there would be no opposition from the friendly societies, and you would have all the support of the Co-operative Union; whereas if you proceed on Sir George Murray's plan—I now know what I did not know the other day, because the Parliamentary Committee of the Co-operative Union had not met and discussed the matter, they only met at 10 o'clock this morning—that it would be opposed by that Union.

*Chairman.*

944. I do not think you answered Lord Herschell's question. Whichever of the two alternatives you adopt your object is the same, namely, to carry on with unlimited liability the two businesses. Why does this Co-operative Union object to the one and not to the other, both being the same?—Your Lordship does not exactly state our object. We have no desire to carry

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[Continued.]

*Chairman—continued.*

to carry on trading with unlimited liability. We find it necessary to carry on what I might call agricultural finance in backward communities on the unlimited liability principle for reasons which have been thoroughly explained to the Committee. Incidentally, we find that these unlimited liability financing agencies must trade. Further, we find that you cannot in these communities organise them under two separate Acts, upon two wholly different principles. It is a question of organisation, and you cannot get them to understand or to operate such a complicated system. You must have one society doing the two purposes. Therefore it is a mere accident that the trade is done on the unlimited principle, as I tried to explain the other day. There will be circumstances even in these communities where they would prefer, as they have to do at present, to do their financing on the unlimited liability principle and their trading on the limited liability, which they will still be able to do if Lord Shaftesbury's Act passes into law. They will prefer that while substantial men cannot join with unsubstantial men in mutual security, they can and do, and it is important that they should join together in a trading business.

945. Does this Bill provide for the existence of a limited liability in connection with trading and unlimited liability in connection with banks?—It does not provide for it, but it is already provided for, and it does nothing which will prevent it.

946. Where is it already provided for?—In the Industrial and Provident Societies Act, under which we in Ireland to-day organise every form of agricultural co-operative society other than credit societies.

947. Under that Act you have limited liability?—Limited liability.

948. It is only under the Friendly Societies Act that you can have unlimited liability?—That is so.

949. Therefore your banking, if it is to be done on an unlimited liability basis, must be a banking business registered under the Friendly Societies Act?—That is so.

950. If you want limited liability in connection with trading, the business must be registered under the Industrial and Provident Societies Act?—Certainly.

951. Do you contemplate two registrations?—We have two registrations as things are at present.

952. Have you?—Certainly.

953. That is quite news to me. I thought these societies that exist at present were registered under the Friendly Societies Act and under no other?—Only the credit societies. The credit societies are registered under the Friendly Societies Act, but they can only deal with credit and cannot touch trade. The trading societies cannot be organised under the Friendly Societies Act, and must be organised under the Industrial and Provident Societies Act.

954. And the object of this Bill, as I understand, is to enable the societies to be registered under the one Act or the other, so that they can

(0.7.)

*Chairman—continued.*

carry on both businesses and both businesses with unlimited liability?—No, my Lord. At present we do actually register societies under two Acts—credit societies under the Friendly Societies Act, and all trading societies under the Industrial and Provident Societies Act; but there are a large number of cases in backward agricultural communities where the people must be organised for credit, and must also be organised for trade, and where we find it is not practical to register and to organise two kinds of societies, and therefore we want credit and trade to be conducted by one society. Mr. Wolff has told you that has been the invariable practice in similar circumstances in other countries, and we merely want to do what has been done abroad.

Lord Northcote.

955. In those backward parts are the societies registered at all?—Certainly.

956. Under which Act?—If for trading under the Industrial and Provident Societies Act, if for credit only under the Friendly Societies Act.

957. I did not quite understand the distinction you were drawing about certain backward districts where you said the conditions of them render it necessary that you should have the power you are seeking under this Bill?—I will try and make it perfectly clear.

958. What I understood you to say was that you had certain societies registered under the Friendly Societies Act, and others under the Industrial and Provident Societies Act, and then you said there were certain backward districts where I did not understand whether the societies were registered at all; and, if not, why you drew special attention to these backward societies as rendering the necessity for this Bill imperative?—The necessity for registering communities in backward districts, and organising them on an unlimited liability basis, is that that is the only form of security which you can develop in these communities and which enables you to get working capital into their business. That is the sole reason for unlimited liability, that it is the only form of security. As the law now stands, it is perfectly open to us to register societies for the purpose of creating a security and for that purpose only, and that we do. It is also free for us, when the societies have to trade in eggs, poultry, butter, manures, seeds, and so forth, to organise for trading purposes, and we do, but we find that in these backward districts it is not satisfactory, and sometimes it is not practicable, to organise the community for both purposes, some under one set of Acts with unlimited liability, and others under another set of Acts with limited liability. You cannot do it. We come here as practical men who have been 21 years at this work, and we tell you that it cannot be done; that is to say it can be done sometimes, but in other cases the districts have to be left derelict as far as co-operative organisation, which is absolutely essential, is concerned, simply because of this difficulty which Lord Shaftesbury proposes to remove.

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959. Is it



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[Continued.]

*Lord MacDonnell.*

959. Is it not the fact that the communities that you have organised under the Friendly Societies Act into these Thrift and Credit Societies are too poor to be organised under the Industrial and Provident Societies Act, and too ignorant, and that, as a matter of fact, you have not organised them under the Industrial and Provident Societies Act. You mentioned that you have organised societies under both Acts. I ask you whether you have ever organised the same society under both Acts?—The same body of men have been organised into two societies, and that is the unsatisfactory state of affairs that we want to change. In some districts you can do it, in other districts you cannot.

*Chairman.*

960. Can you give us an instance of a society which is registered with the same personnel under the two Acts?—I could give you a great many instances, but I do not recall the names at the moment. You may take it from me that there are a large number of such instances, which I can in the course of a post furnish the Committee with.

961. If you know that there are a large number, that is sufficient for us.—Yes.

*Lord MacDonnell.*

962. I was under the impression that the reason for this application was that there were certain of these Thrift and Credit Banks such as I have seen in the West of Ireland very largely, that were too poor and too ignorant to be able to conduct the double work—the work of banking on the unlimited liability principle, and the work of trading. I know of instances also in which they are able to do both things, or they could do both things, and I want to know whether you could divide these societies into two classes, one class which could do the double work, organised under the two Acts, and one class in which you could not get men capable of understanding the two-fold business?—Certainly; you can classify the societies, you could grade the commercial intelligence of the societies in the way you suggest. I do not think you could make it a subject for legislation, but you could, as a matter of inquiry and interest, do that.

963. I must say this has opened out a new vista of thought to me. Take your thrift and credit societies, of which there are about 270: You told us these are all registered under the Friendly Societies Act?—Yes.

964. These all work under the principle of unlimited liability?—Yes.

965. If you were to register these societies under the Industrial and Provident Societies Act you would get everything you wanted, but these societies could not understand the double operation?—That is so.

966. They could not understand and would get confused if they worked under two sets of rules?—Yes.

967. Is there such a great difference between the rules framed under both Acts?—Yes, it is the difference of the responsibility of the mem-

*Lord MacDonnell—continued.*

bers, which is everything in a co-operative society. I have found this. Many years ago I used to organise these societies, and at first, naturally, everybody shied at unlimited liability, but I found that the very moment one of these poor people began to say, "If the worst comes to the worst I will only lose so much," he was done. The attitude of mind must be "Under no circumstances must any risk be run, I shall be ruined if it is." The moment you begin to say, "Well, after all it only costs us so much if the bank bursts," the bank will burst. That is a matter Mr. Wolff will be a much better witness upon than I.

968. You must have unlimited liability on the bank?—Yes.

969. The only thing is whether you are to have trading in the same society?—Yes.

970. I certainly was under the impression that the trading under the Industrial and Provident Societies Act had reference more to your creameries, and your associations of that sort?—Yes, and all the associations for joint purchase and joint sale.

971. And that they were composed of people in parts of the country which are well to do and well off, and that they were a different class of society from the Thrift and Credit Societies with which we are familiar in the extreme West of Ireland?—That is quite true.

972. In the extreme West of Ireland have you any societies registered under the Industrial and Provident Societies Act?—Yes, a very large number.

973. In the congested districts?—Yes.

*Chairman.*

974. What business do they carry on?—Joint purchase of seeds and manures and all agricultural requirements and joint sale of eggs and poultry.

975. They do not carry on a banking business?—No, not under the Industrial and Provident Societies Act.

976. They could, but it would be on a limited liability principle, and not on the Raiffeisen plan.

977. But they do not, in fact?—No, they carry on what is to some extent similar. They do to some extent help each other in the matter of getting goods on credit.

*Lord MacDonnell.*

978. Have you ever actually attempted to organise societies under both Acts?—Yes, I have organised a great many, chiefly under the Industrial and Provident Societies Act.

*Chairman.*

979. Can you have the same society registered under both Acts—both societies under the same Act?—You can have the same number of persons organised in the two.

980. You can have the same people shareholders in two different banks, but the two different banks are two separate corporations? Certainly. Individually they are the same; collectively they are different.

981. I mean



22 June 1910]

Right Hon. Sir H. C. PLUNKETT, K.C.V.O.

[Continued.]

*Lord MacDonnell.*

981. I mean the same people who form a society A under the Friendly Societies Act may also form themselves into a B Society under the other Act?—Yes.

*Chairman.*

982. But one will be a corporation and the other will not?—Yes.

*Lord MacDonnell.*

983. One will have an unlimited liability and the other will have limited liability?—Yes.

*Chairman.*

984. I understand you to say you have done it in many cases?—Yes, it is possible, but it is unsatisfactory.

*Earl of Shaftesbury.*

985. The whole point is that the intelligence of the members is not good enough in the poorest parts to get them to work under those conditions?—The people have never been associated in any business whatsoever before. People may have combined politically and religiously,

*Earl of Shaftesbury—continued.*

but never combined for business purposes. It is rather a severe strain upon them.

*Chairman.*

986. Does it all come back to this, that if there were legislation enabling the societies at present registered under the Friendly Societies Act to carry on co-operative trading, you would get what you want?—Yes. Of course there are other provisions, but that is the main thing that Lord Shaftesbury proposes to do for us. I hope I have not confused your Lordships' minds, but it is inherently rather a complex matter, and I think if your Lordships realise the difficulty that I have had in making myself clear to such a body as this, you will be able to imagine my difficulty when I have to explain the same thing to the peasantry of the West of Ireland. Would you like to have the resolution passed by the Parliamentary Committee of the Co-operative Union this morning?

987. If you think it of any value to us, by all means?—I have stated the substance of it, but I have the actual wording here.

*Chairman.*] You have told us what it is and I think it is sufficient.

CURRENCY AND FOREIGN EXCHANGES.

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FIRST INTERIM REPORT

OF THE

COMMITTEE ON CURRENCY AND FOREIGN  
EXCHANGES AFTER THE WAR

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Presented to Parliament by Command of His Majesty.

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1918.

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### TERMS OF APPOINTMENT

The Lords Commissioners of His Majesty's Treasury and the Minister of Reconstruction have appointed a Committee to consider the various problems which will arise in connection with currency and the foreign exchanges during the period of reconstruction and report upon the steps required to bring about the restoration of normal conditions in due course.

The constitution of the Committee will be as follows:—

LORD CUNLIFFE, G.B.E., Governor of the Bank of England, *Chairman*.

SIR CHARLES ADDIS, Hong Kong and Shanghai Banking Corporation.

The HON. RUPERT BECKETT, Beckett and Company.

SIR JOHN BRADBURY, K.C.B., Secretary to the Treasury.

G. C. CASSELS, Esq., Bank of Montreal.

GASPARD FARRER, Esq., Baring and Company.

The HON. HERBERT GIBBS, Antony Gibbs and Sons.

W. H. N. GOSCHEN, Esq., Chairman of the Clearing Bankers' Committee.

LORD INCHCAPE OF STRATHNAVER, G.C.M.G., K.C.S.I., K.C.I.E.

R. W. JEANS, Esq., Bank of Australasia.

A. C. PIGOU, Esq., M.A., Professor of Political Economy, Cambridge University.

G. F. STEWART, Esq., D.L., F.S.I., Ex-Governor of the Bank of Ireland.

WILLIAM WALLACE, Esq., Royal Bank of Scotland.

Mr. G. C. UPCOTT, of the Treasury and Ministry of Reconstruction, will act as Secretary to the Committee.

January, 1918.

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The following words were subsequently added to the Terms of Reference:—

“and to consider the working of the Bank Act, 1844, and the constitution and functions of the Bank of England with a view to recommending any alterations which may appear to them to be necessary or desirable.”

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# COMMITTEE ON CURRENCY AND FOREIGN EXCHANGES.

## FIRST INTERIM REPORT

of the LORDS COMMISSIONERS OF HIS MAJESTY'S TREASURY and the  
MINISTER OF RECONSTRUCTION.

### *Introduction.*

TO THE LORDS AND SIR,

1. We have the honour to present herewith an interim Report on certain of the matters referred to us in January last. In this Report we attempt to indicate the broad lines on which we think the serious currency difficulties which will confront this country at the end of the war should be dealt with. The difficulties which will arise in connexion with the Foreign Exchanges will be no less grave, but we do not think at any recommendations as to the emergency expedients which may have to be adopted in the period immediately following the conclusion of peace can usefully be made until the end of the war is clearly in sight and a more definite opinion can be formed as to the conditions which will then prevail. We propose so to deal in a later Report with questions affecting the constitution and management of the Bank of England, and with the applicability of the recommendations contained in this Report to Scotland and Ireland, in regard to which we have not yet taken evidence. We have therefore confined our inquiry for the present to the broad principles upon which the currency should be regulated. We have had the advantage of consultation with the Bank of England, and have taken oral evidence from various banking and financial experts, representatives of certain Chambers of Commerce and others who have particularly interested themselves in these matters. We have also had written evidence from certain other representatives of commerce and industry. Our conclusions upon the subjects dealt with in this Report are unanimous, and we cannot but strongly emphasise our opinion that the application, at the earliest possible date, of the main principles which they are based is of vital necessity to the financial stability and well being of the country. Nothing can contribute more to a speedy recovery from the effects of the war, and to the rehabilitation of the foreign exchanges, than the re-establishment of the currency upon a sound basis. Indeed, a sound system of currency will, as is shown in paragraphs 4 and 5, in itself secure equilibrium in those exchanges, and render unnecessary the continued resort to the emergency expedients to which we have referred. We should add that in our inquiry we have had in view the conditions which are likely to prevail during the ten years immediately following the end of the war, and we think that the whole subject should be again reviewed not later than the end of that period.

### THE CURRENCY SYSTEM BEFORE THE WAR.

2. Under the Bank Charter Act of 1844, apart from the fiduciary issue of the Bank of England and the notes of Scottish and Irish Banks of Issue (which were not actually legal tender), the currency in circulation and in Bank reserves consisted before the war entirely of gold and subsidiary coin or of notes representing gold. Gold was freely coined by the Mint without any charge. There were no restrictions upon the import of gold. Sovereigns were freely given by the Bank in exchange for notes at par value, and there were no obstacles to the export of gold. Apart from the presentation for minting of gold already in use in the country (which under normal conditions did not take place) there was no means whereby the legal tender currency could be increased except the importation of gold from abroad, to form the basis of an increase in the note issue of the Bank of England or to be presented to the Mint for coinage, and no means whereby it could be diminished (apart from the normal demand for the arts, amounting to about £2,000,000 a year, which was largely partly taken out of the currency supply) except the export of bullion or sovereigns.

3. Since the passing of the Act of 1844 there has been a great development of the cheque system. The essence of that system is that purchasing power is largely in the form of bank deposits operated upon by cheque, legal tender money being required only for the purpose of the reserves held by the banks against those deposits and for actual public circulation in connection with the payment of wages and retail transactions. The provisions of the Act of 1844 as applied to that system have operated both to correct unfavourable changes and to check undue expansions of credit.

4. When the exchanges were favourable, gold flowed freely into this country and an increase of legal tender money accompanied the development of trade. When the balance of trade was unfavourable and the changes were adverse, it became profitable to export gold. The would-be exporter bought his gold from the Bank of England and paid for it by a cheque on his account. The Bank obtained the gold from the Treasury Department in exchange for notes taken out of its banking reserve, with the result that its liabilities to depositors and its banking reserve were reduced by an equal amount, and the ratio of reserve to liabilities consequently fell. If the process was repeated sufficiently often to reduce the ratio in a degree considered dangerous, the Bank raised its rate of discount. The raising of the discount rate had the immediate effect of retaining money here which would otherwise have been remitted abroad and of attracting remittances from abroad to take advantage of the higher rate, thus checking the outflow of gold and even reversing the stream.

5. If the adverse condition of the exchanges was due not merely to seasonal fluctuations, but to circumstances tending to create a permanently adverse trade balance, it is obvious that the procedure above described would not have been sufficient. It would have resulted in the creation of a volume of short-dated indebtedness to foreign countries which would have been in the end disastrous to our credit and the position of London as the financial centre of the world. But the raising of the Bank's discount rate and the steps taken to make it effective in the market necessarily led to a general rise of interest rates and a restriction of credit. New enterprises were therefore postponed and the demand for constructional materials and other capital goods was lessened. The consequent slackening of employment also diminished the demand for consumable goods, while holders of stocks of commodities carried largely with borrowed money, being

confronted with an increase of interest charges, if not with actual difficulty in renewing loans, and with the prospect of falling prices, tended to press their goods on a weak market. The result was a decline in general prices in the home market which, by checking imports and stimulating exports, corrected the adverse trade balance which was the primary cause of the difficulty.

6. When apart from a foreign drain of gold, credit at home threatened to become unduly expanded, the old currency system tended to restrain the expansion and to prevent the consequent rise in domestic prices which ultimately causes such a drain. The expansion of credit, by forcing up prices, involves an increased demand for legal tender currency both from the banks in order to maintain their normal proportion of cash to liabilities and from the general public for the payment of wages and for retail transactions. In this case also the demand for such currency fell upon the reserve of the Bank of England, and the Bank was thereupon obliged to raise its rate of discount in order to prevent the fall in the proportion of that reserve to its liabilities. The same chain of consequences as we have just described followed and speculative trade activity was similarly restrained. There was therefore an automatic machinery by which the volume of purchasing power in this country was continuously adjusted to world prices of commodities in general. Domestic prices were automatically regulated so as to prevent excessive imports; and the creation of banking credit was so controlled that banking could be safely permitted a freedom from State interference which would not have been possible under a less rigid currency system.

7. Under these arrangements this country was provided with a complete and effective gold standard. The essence of such a standard is that notes must always stand at absolute parity with gold coins of equivalent face value, and that both notes and gold coins stand at absolute parity with gold bullion. When these conditions are fulfilled, the foreign exchange rates with all countries possessing an effective gold standard are maintained at or within the gold specie points.

#### CHANGES WHICH HAVE AFFECTED THE GOLD STANDARD DURING THE WAR.

8. It will be observed that the fall in a number of the foreign exchanges below the old export specie points which has taken place since the early part of 1915\* is not by itself a proof that the gold standard has broken down or ceased to be effective. During the present war the depredations of enemy submarines, high freights, and the refusal of the Government to extend State insurance to gold cargoes have greatly increased the cost of sending gold abroad. The actual export specie point has, therefore, moved a long way from its old position. In view of our enormous demands for imports, coupled with the check on our exports due to the war, it was natural that our exchanges with neutrals should move towards the export specie point. Consequently, the fall in the export specie point would by itself account for a large fall in our exchange rates. Such a fall must have taken place in the circumstances, even though all the conditions of an effective gold standard had been fully maintained.

9. The course of the war has, however, brought influences into play in consequence of which the gold standard has ceased to be effective. In view of the crisis which arose upon the outbreak of war it was considered necessary, not merely to authorise the suspension of the Act of 1844, but also to empower the Treasury to issue currency notes for one pound and for ten shillings as legal tender throughout the United Kingdom. Under the powers given by the Currency and Bank Notes Act, 1914, the Treasury undertook to issue such notes through the Bank of England to bankers, as and when required, up to a maximum limit not exceeding for any bank 20 per cent. of its liabilities on current and deposit accounts. The amount of notes issued to each bank was to be treated as an advance bearing interest at the current bank rate.

10. It is not likely that the internal demand for legal tender currency which was anticipated at the beginning of August, 1914, would by itself have necessitated extensive recourse to these provisions. But the credits created by the Bank of England in favour of its depositors under the arrangements by which the Bank undertook to discount approved bills of exchange and other measures taken about the same time for the protection of credit caused a large increase in the deposits of the Bank. Further, the need of the Government for funds wherewith to finance the war in excess of the amounts raised by taxation and by loans from the public has made necessary the creation of credits in their favour with the Bank of England. Thus, the total amount of the Bank's deposits increased from, approximately, £56,000,000 in July, 1914, to £273,000,000 on the 28th July, 1915, and, though a considerable reduction has since been effected, they now (15th August) stand as high as £171,870,000. The balances created by these operations passing by means of payments to contractors and others to the joint stock banks have formed the foundation of a great growth of their deposits which have also been swelled by the creation of credits in connection with the subscriptions to the various War Loans.† Under the operation of these causes the total deposits of the banks of the United Kingdom (other than the Bank of England) increased from £1,070,681,000 on the 31st December, 1913, to £1,742,902,000 on the 31st December, 1917.

11. The greatly increased volume of bank deposits, representing a corresponding increase of purchasing power and, therefore, leading in conjunction with other causes to a great rise of prices, has brought

\* In the abnormal circumstances at the outbreak of war the neutral exchanges moved temporarily in our favour owing to the remittance home of liquid balances from foreign countries and the withdrawal of foreign credits.

† This process has had results of such far-reaching importance that it may be useful to set out in detail the manner in which it operates. Suppose, for example, that in a given week the Government require £10,000,000 over and above the receipts from taxation and loans from the public. They apply for an advance from the Bank of England, which by a book entry places the amount required to the credit of Public Deposits in the same way as any other banker credits the account of a customer when he grants him temporary accommodation. The amount is then paid out to contractors and other Government creditors, and passes, when the cheques are cleared, to the credit of their bankers in the books of the Bank of England—in other words is transferred from Public to "Other" Deposits, the effect of the whole transaction thus being to increase by £10,000,000 the purchasing power in the hands of the public in the form of deposits in the Joint Stock Banks and the bankers' cash at the Bank of England by the same amount. The bankers' liabilities to depositors having thus increased by £10,000,000 and their cash reserves by an equal amount, their proportion of cash to liabilities (which was normally before the war something under 20 per cent.) is improved, with the result that they are in a position to make advances to their customers to an amount equal to four or five times the sum added to their cash reserves, or, in the absence of demand for such accommodation, to increase their investments by the difference between the cash received and the proportion they require to hold against the increase of their deposit liabilities. Since the outbreak of war it is the second procedure which has in the main been followed, the surplus cash having been used to subscribe for Treasury Bills and other Government securities. The money so subscribed has again been spent by the Government and returned in the manner above described to the bankers' cash balances, the process being repeated again and again until each £10,000,000 originally advanced by the Bank of England has created new deposits representing new purchasing power to several times that amount. Before the war these processes, if continued, compelled the Bank of England, as explained in paragraph 6, to raise its rate of discount, but, as indicated below, the unlimited issue of

about a corresponding demand for legal tender currency which could not have been satisfied under the stringent provisions of the Act of 1844. Contractors are obliged to draw cheques against their accounts in order to discharge their wages bill—itsself enhanced on account of the rise of prices. It is to provide this currency that the continually growing issues of Currency Notes have been made. The Banks instead of obtaining notes by way of advance under the arrangements described in paragraph 9 were able to pay for them outright by the transfer of the amount from their balances at the Bank of England to the credit of the Currency Note Account and the circulation of the notes continued to increase. The Government subsequently, by substituting their own securities for the cash balance so transferred to their credit, borrow that balance. In effect, the banks are in a position at will to convert their balances at the Bank of England enhanced in the manner indicated above into legal tender currency without causing notes to be drawn, as they would have been under the pre-war system, from the banking reserve of the Bank of England, and compelling the Bank to apply the normal safeguards against excessive expansion of credit. Fresh legal tender currency is thus continually being issued, not, as formerly, against gold, but against Government securities. Plainly, given the necessity for the creation of bank credits in favour of the Government for the purpose of financing war expenditure, these issues could not be avoided. If they had not been made, the banks would have been unable to obtain legal tender with which to meet cheques drawn for cash on their customers' accounts. The unlimited issue of currency notes in exchange for credits at the Bank of England is at once a consequence and an essential condition of the methods which the Government have found necessary to adopt in order to meet their war expenditure.

12. The effect of these causes upon the amount of legal tender money (other than subsidiary coin) in bank reserves and in circulation in the United Kingdom are shown in the following paragraph.

13. The amounts on the 30th June, 1914, may be estimated as follows:—

Fiduciary Issue of the Bank of England ... ..	£18,450,000
Bank of England Notes issued against gold coin or bullion ... ..	£38,476,000
Estimated amount of gold coin held by Banks (excluding gold coin held in the Issue Department of the Bank of England) and in public circulation ... ..	£123,000,000
Grand total ... ..	£179,926,000

The corresponding figures on the 10th July, 1918, as nearly as they can be estimated, were:—

Fiduciary Issue of the Bank of England ... ..	£18,450,000
Currency Notes not covered by gold ... ..	£230,412,000
Total Fiduciary Issues* ... ..	£248,862,000
Bank of England Notes issued against coin and bullion ... ..	£65,368,000
Currency Notes covered by gold ... ..	£28,500,000
Estimated amount of gold coin held by Banks (excluding gold coin held by Issue Department of Bank of England), say ... ..	£40,000,000
Grand total ... ..	£382,730,000

There is also a certain amount of gold coin still in the hands of the public which ought to be added to the last-mentioned figure, but the amount is unknown.

14. As Bank of England notes and currency notes are both payable at the Bank of England in gold coin on demand this large issue of new notes, associated, as it is, with abnormally high prices and unfavourable exchanges, must have led under normal conditions to a rapid depletion, threatening ultimately the complete exhaustion, of the Bank's gold holdings. Consequently, unless the Bank had been prepared to see all its gold drained away, the discount rate must have been raised to a much higher level, the creation of banking credit (including that required by the Government) would have been checked, prices would have fallen and a large portion of the surplus notes must have come back for cancellation. In this way an effective gold standard would have been maintained in spite of the heavy issue of notes. But during the war conditions have not been normal. The public are content to employ currency notes for internal purposes, and, notwithstanding adverse exchanges, war conditions interpose effective practical obstacles against the export of gold. Moreover, the legal prohibition of the melting of gold coin, and the fact that the importation of gold bullion is reserved to the Bank of England, and that dealings in it are limited have severed the link which formerly existed between the values of coin and of uncoined gold. It is not possible to judge to what extent legal tender currency may in fact be depreciated in terms of bullion. But it is practically certain that there has been some depreciation, and to this extent therefore the gold standard has ceased to be effective.

#### RESTORATION OF CONDITIONS NECESSARY TO THE MAINTENANCE OF THE GOLD STANDARD RECOMMENDED.

15. We shall not attempt now to lay down the precise measures that should be adopted to deal with the situation immediately after the war. These will depend upon a variety of conditions which cannot be foreseen, in particular the general movements of world prices and the currency policy adopted by other countries. But it will be clear that the conditions necessary to the maintenance of an effective gold standard in this country no longer exist, and it is imperative that they should be restored without delay. After the war our gold holdings will no longer be protected by the submarine danger, and it will not be possible indefinitely to continue to support the exchanges with foreign countries by borrowing abroad. Unless the machinery which long experience has shown to be the only effective remedy for an adverse balance of trade and an undue growth of credit is once more brought into play, there will be very grave danger of a credit expansion in this country and a foreign drain of gold which might jeopardise the convertibility of our note issue and the international trade position of the country. The uncertainty of the monetary situation will handicap our industry, our position as an international financial centre will suffer and our general commercial status in the eyes of the world will be lowered. We are glad to find that there was no difference of opinion among the witnesses who appeared before us as to the vital importance of these matters.

\* The notes issued by Scottish and Irish banks which have been made legal tender during the war have not been included in the foregoing figures. Strictly the amount (about £5,000,000) by which these issues exceed the amount of gold and currency notes held by those banks should be added to the figures of the present fiduciary issues given above.

### CESSATION OF GOVERNMENT BORROWINGS.

16. If a sound monetary position is to be re-established and the gold standard to be effectively maintained, it is in our judgment essential that Government borrowings should cease at the earliest possible moment after the war. A large part of the credit expansion arises, as we have shown, from the fact that the expenditure of the Government during the war has exceeded the amounts which they have been able to raise by taxation or by loans from the actual savings of the people. They have been obliged therefore to obtain money through the creation of credits by the Bank of England and by the Joint Stock Banks, with the result that the growth of purchasing power has exceeded that of purchasable goods and services. As we have already shown, the continuous issue of uncovered currency notes is inevitable in such circumstances. This credit expansion (which is necessarily accompanied by an evergrowing foreign indebtedness) cannot continue after the war without seriously threatening our gold reserves and, indeed, our national solvency.

17. A primary condition of the restoration of a sound credit position is the repayment of a large portion of the enormous amount of Government securities now held by the Banks. It is essential that as soon as possible the State should not only live within its income but should begin to reduce its indebtedness. We accordingly recommend that at the earliest possible moment an adequate sinking fund should be provided out of revenue, so that there may be a regular annual reduction of capital liabilities, more especially those which constitute the floating debt. We should remark that it is of the utmost importance that such repayment of debt should not be offset by fresh borrowings for capital expenditure. We are aware that immediately after the war there will be strong pressure for capital expenditure by the State in many forms for reconstruction purposes. But it is essential to the restoration of an effective gold standard that the money for such expenditure should not be provided by the creation of new credit, and that, in so far as such expenditure is undertaken at all, it should be undertaken with great caution. The necessity of providing for our indispensable supplies of food and raw materials from abroad and for arrears of repairs to manufacturing plant and the transport system at home will limit the savings available for new capital expenditure for a considerable period. This caution is particularly applicable to far-reaching programmes of housing and other development schemes.

The shortage of real capital must be made good by genuine savings. It cannot be met by the creation of fresh purchasing power in the form of bank advances to the Government or to manufacturers under Government guarantee or otherwise, and any resort to such expedients can only aggravate the evil and retard, possibly for generations, the recovery of the country from the losses sustained during the war.

### USE OF BANK OF ENGLAND DISCOUNT RATE.

18. Under an effective gold standard all export demands for gold must be freely met. A further essential condition of the restoration and maintenance of such a standard is therefore that some machinery shall exist to check foreign drains when they threaten to deplete the gold reserves. The recognised machinery for this purpose is the Bank of England discount rate. Whenever before the war the Bank's reserves were being depleted, the rate of discount was raised. This, as we have already explained, by reacting upon the rates for money generally, acted as a check which operated in two ways. On the one hand, raised money rates tended directly to attract gold to this country or to keep here gold that might have left. On the other hand, by lessening the demands for loans for business purposes, they tended to check expenditure and so to lower prices in this country, with the result that imports were discouraged and exports encouraged, and the exchanges thereby turned in our favour. Unless this two-fold check is kept in working order the whole currency system will be imperilled. To maintain the connection between a gold drain and a rise in the rate of discount is essential to the safety of the reserves. When the exchanges are adverse and gold is being drawn away, it is essential that the rate of discount in this country should be raised relatively to the rates ruling in other countries. Whether this will actually be necessary immediately after the war depends on whether prices in this country are then substantially higher than gold prices throughout the world. It seems probable that at present they are on the whole higher, but, if credit expansion elsewhere continues to be rapid, it is possible that this may eventually not be so.

### CONTINUANCE OF DIFFERENTIAL RATES FOR HOME AND FOREIGN MONEY NOT RECOMMENDED.

19. It has been argued before us that during the period of reconstruction and perhaps for many years afterwards it will be possible and desirable, even though the exchanges are adverse, to keep money for home industry substantially cheaper in this country than it is abroad and yet retain an effective gold standard by continuing the present practice of differentiating between home money and foreign money. It is held that relatively low rates should be offered for home money and charged on domestic loans, while gold is at the same time prevented from going abroad by the offer of high rates for foreign money. In our judgment, so soon as the present obstacles in the way of international intercourse are removed, any attempt to maintain this differentiation must break down because it would be impracticable to prevent people from borrowing at the low home rate and contriving in one way or another to re-lend at the high foreign rate. This could only be prevented, if at all, by the maintenance of such stringent restrictions upon the freedom of investment after the war as would, in our opinion, be most detrimental to the financial and industrial recovery of this country. Even, however, if differentiation, as a post-war policy, were practicable, it would not, in our judgment, be desirable. For the low home rate, by fostering large loans and so keeping up prices would continue to encourage imports and discourage exports; so that, even though the high rate offered for foreign money prevented gold from being drawn abroad, it would only do this at the cost of piling up an ever-growing debt from Englishmen to foreigners. It would be necessary at the same time to continue to pay for our essential imports of raw materials by borrowing in the United States and elsewhere, instead of by increasing our exports, thus imposing further burdens of foreign debt. This process could not continue indefinitely, and must sooner or later lead to a collapse. We are, therefore, of opinion that the need for making money dear in the face of adverse exchanges cannot, and should not, be evaded by resort to differential rates.



created, with the object of enabling banks to make large loans to industry without the risk of finding themselves short of cash to meet the requirements of the public for legal tender money. It is plain that a policy of this kind is incompatible with the maintenance of an effective gold standard. If it is adopted there will be no check upon the outflow of gold. Adverse exchanges will not be corrected either directly or indirectly through a modification in the general level of commodity prices in this country. On the contrary, as the issue of extra notes stimulates the conditions which tend to produce an advance of prices, they will become steadily more and more adverse. Hence the processes making for the withdrawal of our gold will continue and no counteracting force will be set in motion. In the result the gold standard will be threatened with destruction through the loss of all our gold.

21. The device of making money cheap by the continued issue of new notes is thus altogether incompatible with the maintenance of a gold standard. Such a policy can only lead in the end to an inconvertible paper currency and a collapse of the foreign exchanges, with consequences to the whole commercial fabric of the country which we will not attempt to describe. This result may be postponed for a time by restrictions on the export of gold and by borrowing abroad. But the continuance of such a policy after the war can only render the remedial measures which would ultimately be inevitable more painful and protracted. No doubt it would be possible for the Bank of England, with the help of the Joint Stock Banks, without any legal restriction on the Note Issue, to keep the rate of discount sufficiently high to check loans, keep down prices, and stop the demand for further notes. But it is very undesirable to place the whole responsibility upon the discretion of the banks, subject as they will be to very great pressure in a matter of this kind. If they know that they can get notes freely, the temptation to adopt a lax loan policy will be very great. In order, therefore, to ensure that this is not done, and the gold standard thereby endangered, it is, in our judgment, imperative that the issue of fiduciary notes shall be, as soon as practicable, once more limited by law, and that the present arrangements under which deposits at the Bank of England may be exchanged for legal tender currency without affecting the reserve of the Banking Department shall be terminated at the earliest possible moment. Additional demands for legal tender currency otherwise than in exchange for gold should be met from the reserves of the Bank of England and not by the Treasury, so that the necessary checks upon an undue issue may be brought regularly into play. Subject to the transitional arrangements as regards currency notes which we propose in paragraphs 43 to 46, and to any special arrangements in regard to Scotland and Ireland which we may have to propose when we come to deal with the questions affecting those parts of the United Kingdom, we recommend that the Note Issue (except as regards existing private issues) should be entirely in the hands of the Bank of England; the notes should be payable in gold in London only, and should be legal tender throughout the United Kingdom.

#### MACHINERY FOR THE CONTROL OF THE NOTE ISSUE.

22. So far we have addressed ourselves to the principles upon which the retention and maintenance of an effective gold standard depend. We have now to consider the particular machinery in regard to the control of the Note Issue by which the observance of these principles can most effectively be secured, and what modification (if any) may be desirable or permissible in the system in force before the war.

23. We would in the first place observe that, while the obligation to pay both Bank of England notes and currency notes in gold on demand should, in our judgment, be maintained, it is not necessary for the maintenance of an effective gold standard, nor do we think it desirable, that there should be an early resumption of the internal circulation of gold coin. For the present at any rate we think that it will be more economical that gold should be held in a central reserve as a backing for notes in circulation. We do not think that any legislation on this subject will be required. People have by now become fully accustomed to the use of notes, and it is probable that (except for the limited requirements of persons proposing to travel abroad) they will continue to circulate instead of gold coin much as they do at present. Informal action on the part of the banks may be expected to accomplish all that is required. If necessary, however, the circulation of gold coin could be prevented by making the notes convertible at the discretion of the Bank of England either into such coin or into bar gold, though for our own part we should prefer to maintain the right of the noteholder to receive payment in gold coin and to trust to the informal steps suggested above to prevent gold from flowing into internal circulation.

24. Secondly, while it is a necessary condition of an effective gold standard that the import of gold should be free from all restrictions, it is not necessary to allow gold coin or bullion obtained otherwise than from the Bank of England to be exported. In view of the fact that it is convenient that the Bank of England should have cognizance of all gold exports, we think it desirable that the export of gold coin or bullion should be subject to the condition that such coin or bullion has been obtained from the Bank for the purpose. Manufactured gold should be deemed to be bullion unless it is in the form of articles containing a prescribed fashion value (say of 10 per cent.). The Bank should be under obligation to supply gold for export in exchange for its notes. These conditions will be sufficient to enable parity to be maintained between currency and bullion, since importers of gold will be free to sell it either in the market or to the Bank of England.

25. Thirdly, in view of the withdrawal of gold from circulation, it is, we think, desirable that the gold reserves of the country should be held by one central institution, and we recommend therefore that all banks should transfer any gold now held by them to the Bank of England, except such small amounts as they may require to keep for the convenience of travellers.

In our opinion, the prohibition against the melting of gold coin should for the present be maintained.

26. We have carefully considered various proposals that have been laid before us as regards the basis upon which the fiduciary note issue should in future be fixed. It has been urged that the raising of the discount rate by the Bank of England may be delayed too long to check effectively an undue expansion of credit, and that under the rigid restrictions of the Act of 1844 a famine of legal tender money might ensue. Crises of this nature necessitating the suspension of the Act arose in 1847, 1857, and 1866, and on the first two occasions notes were actually issued by the Bank in excess of the maximum authorised by law. On this ground mainly it has been urged that these rigid restrictions ought to be transformed into something more elastic. To this end the following principal proposals, either separately or in combination, have been put before us by various witnesses:—

- (1) That the Banking and Issue Department of the Bank of England should be amalgamated;
- (2) That the issue of additional notes, instead of being required to be covered £ for £ by gold, should

be freely allowed, subject only to the condition that a prescribed percentage of the total issue should be so covered;

- (3) That, while either an absolute figure for the maximum fiduciary issue or a maximum determined on a proportionate basis should be prescribed by law, provision should be made for increases beyond this maximum upon condition of a tax being paid by the Bank to the Government.

These various suggestions we now proceed to discuss.

27. First, the main effect of the amalgamation of the two Departments of the Bank of England would be to place deposits with the Bank of England in the same position as regards convertibility into gold as is now held by the note. It has been argued in favour of this change that greater security would be given to the deposits than under the present system. After careful consideration we are unable to recommend it. The deposits have at present the full security of the reserve in the Banking Department, and it is obvious that any such additional security would be at the direct expense of the security of the note. In our opinion it is desirable that the issue of Currency shall be subject to strict legal regulation, but that the management of banking should be left as free as possible from State interference. We think that the amalgamation of the two Departments would inevitably lead in the end to State control of the creation of banking credit generally, a contingency which we are convinced would greatly hamper the elasticity and efficiency with which the banks are able to meet the requirements of industry.

28. Secondly, the proposal to allow the issue of fiduciary notes without limit, subject only to a fixed percentage of the total issue being held in gold by the Bank of England (or the Issue Department of the Bank of England if there is no amalgamation), appears to us objectionable for the following reasons. If, as happened in general in the German Reichsbank, other regulations keep the actual note issue much below the maximum fixed by this proportion, the proportion is not effective and produces no result. But, if the actual note issue is really controlled by the proportion, the arrangement is liable to bring about very violent disturbances. Suppose, for example, that the proportion of gold to notes is actually fixed at one-third and is operative. Then, if the withdrawal of gold for export reduces the proportion below the prescribed limit, it is necessary to withdraw notes in the ratio of three to one. Any approach to the conditions under which the restriction would become actually operative would thus be likely to cause even greater apprehension than the limitations of the Act of 1844.

29. This consequence might no doubt be obviated for a time if the Joint Stock Banks themselves kept large reserves of gold and were prepared in the event of the depletion of the Bank of England reserve either by an external or by an internal drain to use them to make good the depletion and so dispense for the time being with the necessity for withdrawing notes from circulation. It is clear, however, that unless the same steps in regard to money rates and the restriction of credit were taken as would be necessary if the depletion were actually operative, this remedy would be merely a temporary palliative, since the causes which had occasioned the drain would continue to operate unchecked. If, on the other hand, as some have advocated, the Banks were given in consideration for their assistance in such contingencies, in addition to the right to obtain notes for the gold brought in, the right to receive advances in further fiduciary notes, the result, so far as the right was exercised, would be to neutralize the effect which the gold brought in would otherwise have had in preserving or restoring the proportion of gold to circulation, while the Bank of England would be placed in the very dangerous position of being under an absolute obligation to create new credits at the very moment at which a policy of credit restriction had become essential.

Incidentally we would remark that the minimum percentages proposed by the London Chamber of Commerce, namely, 33½ per cent. of gold against the Bank of England note issue and 20 to 25 per cent. against a separate issue of currency notes, would in our opinion be wholly inadequate. The percentage of gold to the two issues, taken together, would actually be less than is now held. The Manchester Chamber of Commerce propose that the proportion of gold to notes should be 40 per cent., while Sir Edward Holden was of opinion that the Bank should aim at that proportion of gold in respect to its total liabilities on account of the notes issued and deposits. For the reasons indicated above, however, we have come to the unanimous conclusion that there are substantial objections to basing the note issue of this country upon any proportionate holding of gold.

30. There remains, thirdly, the plan of fixing a maximum *absolute* limit to the fiduciary note issue, subject to the condition that this limit may be exceeded on the payment of a tax to the Government. It is obvious that, if such a tax is to act as a deterrent, it must be sufficiently high to secure that no profit should accrue to the Bank as the result of the emergency issue. As this profit necessarily depends to a large degree upon the rate of interest at which accommodation is given to the market, we do not think, in view of the great uncertainty as to the future course of interest rates, that it is practicable now to name any figure which could safely be adopted for such a tax. Unless it is fixed at a sufficiently penal rate to secure that the normal fiduciary issue is not exceeded except in circumstances of real emergency, and then only for a strictly limited period, the system may afford dangerous possibilities of excessive speculation and lend itself to the development of crises which more stringent safeguards might have averted altogether. This criticism has in fact been made of the German plan, and we are not clear how the arrangements recently adopted by the United States, which have not yet been tested by experience, will actually operate. If it were decided to adopt any such method in this country, it would be necessary for safety to take a very high rate which might in fact prove to be unduly penal.

31. In view of the comparison with the systems prevailing in foreign countries which have been put forward by various witnesses, we would point out that these countries have not in practice maintained the absolutely free gold market which this country, by reason of the vital importance of its position in international finance, is bound to do. It has therefore been open to them to have recourse to devices to steady the rate of discount which, even if successful for this purpose, it would be inexpedient and dangerous for us to attempt.

#### MAINTENANCE OF PRINCIPLE OF BANK CHARTER ACT, 1844, RECOMMENDED.

32. Having regard to the foregoing considerations, we are of opinion that the principle of the Act of 1844, which has upon the whole been fully justified by experience, should be maintained, namely, that there should be a fixed fiduciary issue beyond which, subject to emergency arrangements which we recommend below, notes should only be issued in exchange for gold. It is noteworthy that from 1866 till the outbreak of the present war no suspension of the Act was ever necessary. We think that the stringent principles of the Act have often had the effect of preventing dangerous developments and the fact that they have had

to be temporarily suspended on certain rare and exceptional occasions (and those limited to the earlier years of the Act's operation when experience of working the system was still immature) does not, in our opinion, invalidate this conclusion. We recommend, therefore, that the separation of the Issue and Banking Departments of the Bank of England should be maintained and that the Weekly Return should continue to be published in its present form.

#### MODIFICATION OF PROVISIONS OF ACT OF 1844 IN RESPECT OF ISSUE OF EMERGENCY CURRENCY RECOMMENDED.

33. This conclusion, however, has not prevented us from considering with care the possibility of so modifying the Act of 1844 as to make provision for the issue of emergency currency in times of acute difficulty. It might, no doubt, be sufficient to leave matters as they were prior to 1914 and to risk the possibility of the law having to be broken, subject to indemnity from Parliament, but upon the whole we share the objections which have been expressed in many quarters to this procedure. We are, therefore, of opinion that the provisions of Section 3 of the Currency and Bank Notes Act, 1914, under which the Bank of England may, with the consent of the Treasury, temporarily issue notes in excess of the legal limit, should be continued in force. It should be provided by statute that Parliament should be informed forthwith of any action taken by the Treasury under this provision by means of a Treasury Minute which should be laid before both Houses. The statute should also provide that any profits derived from the excess issue should be surrendered by the Bank to the Exchequer. It will, of course, be necessary that the Bank rate should be raised to, and maintained at, a figure sufficiently high to secure the earliest possible retirement of the excess issue.

34. In connection with these emergency arrangements we have considered the question of the reserves which should be held by the joint stock banks quite apart from their normal reserves of legal tender money. As we do not contemplate a resumption of the internal circulation of gold, no useful purpose would be served by their accumulating gold which can be more effectively employed by the Bank of England in maintaining the exchanges and supporting the note issue. We have considered a proposal that they should be required to hold a certain proportion of their deposits in the form of Treasury Bills and other short-dated Government Securities, which, in the event of a crisis, might be discounted with the Bank of England and form the basis of an issue of emergency currency, if required. While we think it expedient that such reserves should be held, we have come to the conclusion that it would not be desirable to attempt any legal regulation of the matter. Our attention has, however, been called to the fact that a Committee of Bankers have recommended that banks should in future be required to publish a Monthly Statement in the form of Appendix I. to this Report showing the average of their weekly balance sheets during the month. We entirely concur in this recommendation and we suggest that the statement of assets should be amplified by the addition after "money at call and at short notice" of a heading "Government Securities maturing within 12 months." If this is done, we think that the consequent publicity will be amply sufficient to secure the object which we have in view.

#### AMOUNT OF FIDUCIARY NOTE ISSUE AND GOLD RESERVE.

35. Having come to the conclusion that the amount of the fiduciary issue should, subject to what was said in paragraph 33, be fixed by law at some definite amount, we have next to consider how large this fiduciary issue ought to be.

Assuming the restoration of an effective gold standard, and given the conventional standards of banking practice and the customs of the public as regards the use of currency, the amount of legal tender currency (other than subsidiary coin) which can be kept in circulation, including the currency holdings of the banks and the Banking Department of the Bank of England, will determine itself automatically, since, if the currency becomes redundant, the rate of discount will fall, and prices will rise; notes will be presented in exchange for gold for export and the volume of the currency will be reduced *pro tanto*. If, on the other hand, the supply of currency falls below current requirements, the rate of discount will rise, prices will fall, gold will be imported and new notes taken out in exchange for it.

36. Under the arrangements which we contemplate virtually the whole amount of the currency gold in the country will be held in a central reserve at the Bank of England; and the circulation, in the wide sense in which we are using the term, will consist (apart from the subsidiary currency, which we need not now consider) in part of fiduciary notes and, as regards the balance, of notes covered by that reserve. The total circulation being automatically determined, it will follow that the higher the amount fixed for the fiduciary issue the lower will be the amount of the covered issue and, consequently, of the central gold reserve and *vice versa*, while, if the fiduciary issue were fixed at a figure which proved to be higher than the total requirements of the country for legal tender currency, the covered issue, and with it the central gold reserve, would disappear altogether. It is clear, therefore, that the amount of the fiduciary issue must be fixed at a figure low enough to make sure, not merely that there will always be some covered issue, but that there will always be a covered issue of sufficiently substantial amount to secure that the covering gold which constitutes the central reserve never falls so low as to give rise to apprehension as to the stability of the gold standard.

37. If the post-war requirements proved to be no larger than the pre-war requirements (about £180,000,000, exclusive of subsidiary coin, as shown in paragraph 13), it is clear that the present fiduciary issue of £249,000,000 would have to be reduced by £69,000,000 before any gold could be retained in the central reserve at all. Even upon the supposition that the policy of substituting notes for all gold outside that reserve is completely successful, in order to have a central gold reserve of £100,000,000 the fiduciary issue would have to be reduced to £80,000,000 and, even so, we should have £60,000,000 less gold in the country than before the war.

38. The pre-war requirements, however, had relation to the level of pre-war world prices, the existing conventional standards in regard to banking reserves, and the habits of the people, both in regard to the amounts of money which they carried in their pockets and kept in their homes and to the use of credit instruments in place of cash. It is probable that after the war world prices will stand for many years, if not permanently, at a greatly enhanced level, and that the banks may well find it desirable to adopt a higher standard for their holdings of legal tender money. Furthermore, any additional economy in the use of legal tender money which may take place though the extended use of bankers' cheques and other credit instruments may be more than offset by the fact that a larger share of the national income is likely to be enjoyed by the wage-earning classes who are the chief users of legal tender money. All these causes will

tend to increase the amount of legal tender money which the country will, consistently with the maintenance of a gold standard, be able to retain in bank reserves and general circulation to a point much above the pre-war figure, but the precise amount of the increase can only be determined by experience.

39. Until such experience has been gained it would in our opinion be dangerous to seek to lay down any precise figure for the fiduciary issue. The adoption of an unnecessarily low figure would result in the accumulation of a gold reserve of larger dimensions than is strictly necessary for the protection of the gold standard and the security of our national credit—a luxury which we shall be ill able to afford in the difficult times which are ahead—while the adoption of too high a figure would destroy the gold standard altogether.

40. It, therefore, seems desirable to approach the problem from the other end, and to attempt to fix tentatively the amount which we should like to see held in gold in the central reserve, leaving the ultimate dimensions of the fiduciary issue to be settled as the result of experience at the amount of fiduciary notes which can be kept in circulation—in banking reserves (including the Banking Reserve of the Bank of England), and in the pockets of the people—without causing the central gold reserve to fall appreciably below the amount so fixed.

41. The pre-war gold reserves were about £38,500,000 in the Bank of England and an amount estimated at £123,000,000 in the banks and in the pockets of the people. If the actual circulation of gold coin ceases and the whole of the gold is concentrated in the central institution, some economy is permissible in view of its increased mobility. On the other hand the aggregate amount of currency required will undoubtedly be larger. We accordingly recommend that the amount to be aimed at in the first instance as the normal minimum amount of the central gold reserve should be £150,000,000, and that, until this amount has been reached and maintained concurrently with a satisfactory foreign exchange position for a period of at least a year, the policy of reducing the uncovered note issue as and when opportunity offers should be consistently followed. In view of the economic conditions which are likely to follow the restoration of peace, it will be necessary to apply this policy with extreme caution and without undue rigidity. When the exchanges are working normally on the basis of a minimum reserve of £150,000,000 the position should again be reviewed in the light of the dimensions of the fiduciary issue as it then exists.

#### REDUCTION OF PRESENT CURRENCY NOTE ISSUE DURING INTERIM PERIOD.

42. If these arrangements are adopted, there will be an interim period beginning after the completion of demobilisation during which it is probable that the present issue of Currency Notes will have to be gradually reduced until experience has shown what amount of fiduciary notes can be kept in circulation consistently with the maintenance of this reserve. It was suggested to us in evidence that, until that amount has been ascertained, steps should be taken as soon as possible after the war to reduce the uncovered issue at the rate of not less than 3 per cent. per annum of the outstanding amount, and that, subject to arrangements for meeting a temporary emergency, the issue in any period of six months or one year should not be allowed to exceed the amount outstanding in the preceding similar period. We think that it would be highly desirable to aim at a steady and continuous reduction, but we are disposed to doubt whether it will be found to be practicable to work to any precise rule. We confine ourselves therefore to the general recommendation of policy indicated above. We entirely concur, however, in the suggestion that, when reductions have taken place, the actual maximum fiduciary circulation in any year should become the legal maximum for the following year, subject only to the emergency arrangements proposed in paragraph 33.

#### TRANSITIONAL ARRANGEMENTS PENDING REPLACEMENT OF CURRENCY NOTE ISSUE BY A BANK OF ENGLAND ISSUE.

43. It remains for us to consider how and when the present issue of Currency Notes is to be replaced by the Bank of England issue. There would be some awkwardness in transferring the issue to the Bank of England before the future dimensions of the fiduciary issue have been ascertained. We, therefore, recommend that during the transitional period the issue should remain a Government issue, but that such post-war expansion (if any) as may take place should be covered, not by the investment of the proceeds of the new Notes in Government securities, as at present, but by taking Bank of England Notes from the Bank and holding them in the Currency Note reserve, and that, as and when opportunity arises for providing cover for the existing fiduciary portion of the issue, the same procedure should be followed. The effect of this arrangement would be that the demands for new currency would operate in the normal way to reduce the reserve in the Banking Department at the Bank of England, which would have to be restored by raising money rates and encouraging gold imports.

44. We should thus in course of time have the Currency Note issue covered partly by the £28,500,000 of gold at present held and partly by Bank of England notes covered by gold in the Issue Department of the Bank of England; the balance, forming the fiduciary part of the issue properly so-called, being covered by Government securities as at present. During the transition stage the greater part at any rate of the demand for gold for export will fall upon the Bank of England, since currency notes are not likely to be presented to any large extent for actual payment in gold, but will be paid in by the banks which collect them to the credit of their accounts with the Bank of England, the balances thereby created being used when necessary to draw gold from the Bank of England for export in the ordinary way. We accordingly think that it will be desirable that Bank of England notes should likewise be substituted in the currency note reserve, either immediately after the war or from time to time by instalments, for the £28,500,000 gold now held by that reserve, so that when the time is ripe for the final transfer the whole of the gold reserve may be in the hands of the Bank.

45. When the fiduciary portion of the issue has been reduced to the amount which experience shows to be consistent with the maintenance of a gold reserve of £150,000,000 in the Issue Department of the Bank, the outstanding Currency Notes should be retired and Bank of England notes of low denomination substituted, the Bank of England fiduciary issue being simultaneously increased by an amount equal to the then issue of Currency Notes covered by Government securities. As the Bank of England notes held in the Currency Note reserve and the gold against them would already appear in the Bank return, the only effect on that return of the ultimate merger would be to add to the total Bank of England issue the amount of the fiduciary portion of the Currency Note issue as ultimately ascertained, and to add the same amount of Government securities to the securities in the Issue Department.

46. The settlement as between the Treasury and the Bank would take the form of the Treasury handing over to the Bank in exchange for a like amount of Currency Notes withdrawn by the Bank from circulation the Bank of England notes held for the Currency Note account, and in respect of the remainder of the Currency Notes withdrawn Government securities. These securities should be either Ways and Means advances, or Treasury Bills and other marketable securities being part of the ordinary Public Debt, and should be taken at current market value. In so far as any of the assets of the currency note redemption account at the time of transfer might not come within these categories they should be retained by the Treasury and other securities substituted. The Bank of England notes of small denomination would be issued by the Bank in place of the currency notes withdrawn from circulation, partly in substitution for the Bank of England notes returned to them from the Currency Note Reserve (which would be already covered by gold in the Issue Department), and partly in respect of the Bank's new fiduciary issue based on the transferred securities. The profits of the increased fiduciary issue would be payable by the Bank to the Exchequer.

#### SUMMARY OF CONCLUSIONS.

47. Our main conclusions may be briefly summarised as follows:—

Before the war the country possessed a complete and effective gold standard. The provisions of the Bank Act, 1844, operated automatically to correct unfavourable exchanges and to check undue expansions of credit. (Paras. 2 to 7.)

During the war the conditions necessary to the maintenance of that standard have ceased to exist. The main cause has been the growth of credit due to Government borrowing from the Bank of England and other banks for war needs. The unlimited issue of Currency Notes has been both an inevitable consequence and a necessary condition of this growth of credit. (Paras. 8 to 14.)

In our opinion it is imperative that after the war the conditions necessary to the maintenance of an effective gold standard should be restored without delay. Unless the machinery which long experience has shown to be the only effective remedy for an adverse balance of trade and an undue growth of credit is once more brought into play, there will be grave danger of a progressive credit expansion which will result in a foreign drain of gold menacing the convertibility of our note issue and so jeopardising the international trade position of the country. (Para. 15.)

The pre-requisites for the restoration of an effective gold standard are:—

- (a) The cessation of Government borrowing as soon as possible after the war. We recommend that at the earliest possible moment an adequate sinking fund should be provided out of revenue, so that there may be a regular annual reduction of capital liabilities, more especially those which constitute the floating debt. (Paras. 16 and 17.)
- (b) The recognised machinery, namely, the raising and making effective of the Bank of England discount rate, which before the war operated to check a foreign drain of gold and the speculative expansion of credit in this country, must be kept in working order. This necessity cannot, and should not, be evaded by any attempt to continue differential rates for home and foreign money after the war. (Paras. 18 and 19.)
- (c) The issue of fiduciary notes should, as soon as practicable, once more be limited by law, and the present arrangements under which deposits at the Bank of England may be exchanged for legal tender currency without affecting the reserve of the Banking Department should be terminated at the earliest possible moment. Subject to transitional arrangements as regards Currency Notes and to any special arrangements in regard to Scotland and Ireland which we may have to propose when we come to deal with the questions affecting those parts of the United Kingdom, we recommend that the Note Issue (except as regards existing private issues) should be entirely in the hands of the Bank of England. The Notes should be payable in London only and should be legal tender throughout the United Kingdom. (Paras. 20 and 21.)

As regards the control of the Note Issue, we make the following observations:—

- (1) While the obligation to pay both Bank of England Notes and Currency Notes in gold on demand should be maintained, it is not necessary or desirable that there should be any early resumption of the internal circulation of gold coin. (Para. 23.)
- (2) While the import of gold should be free from all restrictions, it is convenient that the Bank of England should have cognizance of all gold exports and we recommend that the export of gold coin or bullion should be subject to the condition that such coin and bullion has been obtained from the Bank for the purpose. The Bank should be under obligation to supply gold for export in exchange for its notes. (Para. 24.)
- (3) In view of the withdrawal of gold from circulation we recommend that the gold reserves of the country should be held by one central institution and that all banks should transfer any gold now held by them to the Bank of England. (Para. 25.)

Having carefully considered the various proposals which have been placed before us as regards the basis of the fiduciary note issue (paras. 26 to 31), we recommend that the principle of the Bank Charter Act, 1844, should be maintained, namely, that there should be a fixed fiduciary issue beyond which notes should only be issued in exchange for gold. The separation of the Issue and Banking Departments of the Bank of England should be maintained, and the Weekly Return should continue to be published in its present form. (Para. 32.)

We recommend, however, that provision for an emergency be made by the continuance in force, subject to the stringent safeguards recommended in the body of the Report, of section 3 of the Currency and Bank Notes Act, 1914, under which the Bank of England may, with the consent of the Treasury, temporarily issue notes in excess of the legal limit. (Para. 33.)

We advocate the publication by the banks of a monthly statement in a prescribed form. (Para. 34.)

We have come to the conclusion that it is not practicable to fix any precise figure for the fiduciary Note Issue immediately after the War. (Paras. 35 to 39.)

We think it desirable, therefore, to fix the amount which should be aimed at as the central gold reserve, leaving the fiduciary issue to be settled ultimately at such amount as can be kept in circulation without causing the central gold reserve to fall below the amount so fixed. We recommend that the normal minimum



of the central gold reserve to be aimed at should be, in the first instance, £150 millions. Until this amount has been reached and maintained concurrently with a satisfactory foreign exchange position for at least a year, the policy of cautiously reducing the uncovered Note Issue should be followed. When reduced have been effected, the actual maximum fiduciary circulation in any year should become the legal maximum for the following year, subject only to the emergency arrangements previously recommended. When exchanges are working normally on the basis of a minimum reserve of £150,000,000, the position should again be reviewed in the light of the dimensions of the fiduciary issue as it then exists. (Paras. 40 to 42.)

We do not recommend the transfer of the existing Currency Note Issue to the Bank of England until the future dimensions of the Fiduciary Issue have been ascertained. During the transitional period the issue should remain a Government issue, but new notes should be issued, not against Government securities but against Bank of England Notes, and, furthermore, when opportunity arises for providing cover for existing uncovered notes, Bank of England Notes should be used for this purpose also. Demands for currency would then fall in the normal way on the Banking Department of the Bank of England. (Paras. 43 and 44.)

When the fiduciary portion of the issue has been reduced to an amount which experience shows to be consistent with the maintenance of a central gold reserve of £150 millions, the outstanding Currency Notes should be retired and replaced by Bank of England Notes of low denomination in accordance with the detailed procedure which we describe. (Paras. 45 and 46.)

We have the honour to be,

My Lords and Sir,

Your obedient Servants,

(Signed) CUNLIFFE (*Chairman*)  
C. S. ADDIS.  
R. E. BECKETT.  
JOHN BRADBURY.  
G. C. CASSELS.  
GASPARD FARRER.  
HERBERT C. GIBBS.  
W. H. N. GOSCHEN.  
INCHCAPE.  
R. W. JEANS.  
A. C. PIGOUE.  
GEO. F. STEWART.  
W. WALLACE.

G. C. UPCOTT (*Secretary*).  
15th August, 1918.

#### APPENDIX I.

#### PROPOSED MONTHLY STATEMENT TO BE PUBLISHED BY BANKS.

Statement of the average figures of the weekly Balance Sheets during the month of..... 1918

LIABILITIES.		ASSETS.	
Capital :—		Cash :—	£
Registered £		(1) Coin, Bank and Currency Notes, and Balances with the Bank of England	£
Subscribed £		(2) Balances with London Clearing Agents and with other Banks, Bankers or Banking Companies in the United Kingdom	£
Paid up	£	(3) Items in transit	£
Reserve Fund		Money at Call and at Short Notice	
Current, Deposit, and other Accounts		British Bills of Exchange	
Acceptances		Foreign Bills, Foreign Bank Bills and Domiciled Bills	
Endorsements, Guarantees and other obligations		Balances abroad	
Notes in Circulation		Investments :—	
		(1) Securities of, or guaranteed by, British Government	
		(2) Indian and Colonial Government Securities, British Corporation Stocks, British Railway Debenture and Preference Stocks	
		(3) Other Investments	
		Loans and Advances	
		Other Assets	
		Bank Premises	
		Liabilities of Customers for Acceptances, as per contra	
		Liabilities of Customers for Endorsements, Guarantees and other obligations, as per contra	
	£		£