

THE ECONOMICAL EFFECTS OF RECENT INDIAN CURRENCY LEGISLATION.

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LORD CURZON concluded his Budget speech of March 28, 1900, by saying that "there are two great duties of Imperial statesmanship in India. The first is to make all these millions of people, if possible, happier, more contented, and more prosperous; the second is to keep them and their property safe." Up to June 26, 1893 (the date of the passing of the Currency Act), those objects were as fully striven for as circumstances permitted; but since then causes have been initiated which are calculated to make the people less happy, less contented, and less prosperous, and their property, so far from being kept safe, has been and is being now most deplorably deteriorated. And yet the rulers of India are as able, as upright, as painstaking, and as eager to work for the good of the country as they ever were. What, then, is the explanation of this relapse? It is that the rulers of India in the year 1893, who were admirably qualified to conduct those affairs with which a long experience had made them thoroughly acquainted, resolved to reconstruct the currency of India without possessing the qualifications necessary to enable them to judge as to what, if anything, should be done in the matter, and more especially to form a sound opinion as to the consequences of any new currency policy they might adopt. They had neither that world-wide experience of economical affairs which is necessary for the formation of a sound judgment on such a subject, nor that imaginative power which in the case of some men can so largely supply the want of experience, and still less had they that ratiocinative faculty which, as Newman puts it, enables a man to see at a glance the ultimate result of a complicated problem. The immediate cause of their action was a panic, arising from

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the fact that falling exchange increased the burden of home remittances, while their taxational resources could not be easily increased by any large amount. They imagined that silver might fall until it became of no more value than the sands of the sea, an expression that was commonly used when the panic was at its height, and which was known as "the sands of the sea" argument. Their state of feeling was echoed on this side by Lord George Hamilton, in his speech of June 7, 1898, when he said that "if the Government had stood still and had done nothing, they would gradually have drifted into a position in which they would not have been able to meet their obligations," though I may observe in passing that he thereby indicated his approval of what the *Times* has well called "the quite inexcusable policy of tampering with the currency of a country in order to escape from financial difficulties." The belief that something must be done received a strong impetus from the fact that, if the policy which seemed best to the Government could be carried out, it would produce a stable rate of exchange, and this they thought would in itself cause a large flow of capital to India for the benefit of the people and to the ultimate financial welfare of the State. But what unfortunately they did not perceive was, that their method of creating a stable "exchange" at an artificially enhanced rate, which was liable to be still further enhanced at the will of the Government, instead of developing, would seriously injure the industries of the country, and thus at once diminish the means of employment and the rate of wages, results which have already occurred in consequence of the currency measure. But although the Indian Government has brought such serious results, we ought to be obliged to it for proving more clearly than it probably ever has proved that there are few more dangerous people in the world than well-meaning, conscientious, and partially informed men who have been invested—as the Indian oligarchy of head officials have been—with, practically speaking, irresponsible power. This, no doubt, is but a

poor consolation for the evils they have caused, but it is the only one, and the recognition of this elementary political fact may possibly lead to some modification of the system of governing India that will act as a safeguard against rulers who act according to their lights, but who are never likely to see far enough ahead to prevent their excellent intentions running the vessel of the State into serious danger when it is taken into unfamiliar seas.

And there is another important point which has been rendered very clear since the passing of the Currency Act, (and that is, that when an oligarchy of "officials" like that which constitutes the Government—for the Houses of Parliament never can be in effective touch with Indian affairs—have once embarked on an erroneous course, they seldom have the moral courage to recognise and endeavour to remedy the evils caused by their policy. On the contrary, they strain every nerve to prove that they are right, and persistently attribute the evils that have arisen from their policy to any cause rather than their own action, a thing they know they may the more effectually do in consequence of the general ignorance of Indian affairs. We accordingly find Mr. J. A. Baines, C.I.E., leading the reader in the *Society of Arts Journal* to infer that the present decline in coffee is owing to plant disease and the prosperity of trade in other produce than coffee; Lord Curzon attributing industrial difficulties to over-production; while Lord George Hamilton, as we shall see, boldly denied the existence of any evils connected with Indian industries. Let us investigate his assertions.

Lord George Hamilton (vide *Times* of July 15, 1902), in his reply to Sir Edward Sassoon, refused his request for an inquiry into the agricultural and industrial evils that have resulted from the currency legislation on the grounds that no facts had been brought to his notice to show that any such evils exist. Now, I was deputed by the coffee planters of Southern India to represent their interests before the Fowler Committee, and I sent in a printed

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statement of the points I was prepared to prove as regards the evil effects of the legislation on Indian industries. Previous to seeing my statement the Committee expressed a wish to hear me, but after they saw it I was put off from time to time till the Committee closed its examination of witnesses, nor was my statement even alluded to in their report. I appealed to Lord George in good time for my evidence to be taken, showed him the way in which the great interests I represented were being shelved, and sent him a copy of my statement, but he replied that he regretted what had occurred, but could not interfere with the Committee. I subsequently repeatedly brought to his notice the facts of the decline of the coffee industry and its approximate cause, and did so publicly when I spoke at a meeting held at the Imperial Institute on March 17, 1900. On that occasion neither Lord George, who presided, nor any of the speakers, attempted to controvert my statement as to the injurious effects of the legislation on all Indian industries which produced anything for export. I subsequently requested Lord George to grant me and one of our most influential planters an interview, in order that we might explain the very serious state of matters as regards our industry in consequence of the currency legislation; but his mental attitude was evidently that of the British farmer who, when asked to listen to some proposals for the improvement of his farm, replied, "What we knows we knows, and what we don't know we don't want to know," and I am naturally led to this inference as his lordship professed not to own the receipt of my letter.

Let us now consider the effect of the measure on producers and their labourers, and as illustrative cases take (1) the European and native plantations of Southern India; (2) the tea-planters; (3) the cotton cultivators of Baroda; (4) the mill-owners of Bombay; (5) the gold miners of Southern India; lastly, let us consider the case of the holders of silver ornaments. As to the first, my long

experience as a planter, living in a part of Mysore where native coffee holdings are numerous, enables me to speak with the confidence which is derived from the most direct sources of information. In 1890-91, by a return prepared for me by the late Dewan, there were 662 European and upwards of 27,000 native holdings in the province. As regards the former, nearly all are more or less involved in serious difficulties, some are abandoned, others partially so, and a large number would have been abandoned had they (the owners) not been in debt to the mercantile houses, who have taken over the estates and continue to work them as mortgagees in possession. As for the native holdings, very few now exist, though they still figure as area under coffee in the returns. In the adjacent district of Coorg, of upwards of 25,000 native holdings hardly any now exist, and the same is the case in Wynaad, which lies to the south of Coorg, where many fine native plantations once existed. The primary cause of this great disaster is due to the decline in prices owing to over-production in other coffee-producing countries; the efficient or proximate cause—the last straw which has broken the back of the camel—is the currency legislation. In other words, had it not been for the losses arising from this legislation, all the planters—native and European—could have tided over the period of over-production. To make the matter more clear to the uninitiated, the following illustration may be useful. The farmers in England, like the planters in Mysore, are up to the neck in a sea of over-production. Let us suppose that the Government, by some currency manipulation, were to decrease the receipts of the farmers by about 25 per cent., it is certain that they would be ruined, as it is certain that their ruin would be due, not to over-production, but to the act of the Government. The native planters were, as we have seen, struggling in a sea of over-production. The Government, by its currency legislation, reduced their receipts by about 25 per cent., and thereby extinguished their property, and then would

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have us believe, as has been asserted by the Viceroy, that over-production is the sole cause of ruin. But this is far from being all, for the measure has conferred such a bounty on our competitors that Brazilian and other foreign coffees are now being imported into India, and in increasing quantities. On these only a trifling import duty is charged. The competing countries who now export to India have thus all the advantages of free silver, while our Indian coffee is produced under the depressing influence of an enhanced rate of exchange. It may be noted here that the taxation inflicted through the currency legislation is much worse for producers than an income-tax of 25 per cent. or a direct export tax of similar amount. In the case of the former the burden would, of course, rise and fall in proportion to the income, and cease if there were none; and in the case of the latter, if there were less to export ~~than~~ would be less to pay. But the export tax levied through the action of the Currency legislation has to be paid whether there are or are not profits, or whether there is much or little to export. It is, in fact, an addition of about 25 per cent. to the working expenses of a concern, whether there are or are not profits from it. It is, therefore, the most injurious form of taxation that could be devised, and being an obstacle to industrial progress, and, consequently, a serious addition to famine-producing causes, is obviously as harmful to the people as it must ultimately be to the financial and general position of the Government.

It seems hardly necessary to say anything further as to the evils of the currency legislation so far as the coffee industry is concerned, but it may be mentioned that at the annual meeting of the United Planters Association of Southern India, July, 1902, it was unanimously resolved that "This Association, while yielding to none in its loyalty to the Government, desires that it be publicly recorded that the fixing of the rupee at so high a rate as 1s. 4d. has been seriously detrimental to producers throughout India, and that it cannot regard the currency question

as finally disposed of while a higher rate is liable to be imposed." As the merchants and agents in Southern India are largely concerned, both directly and indirectly, with the planting industry, this resolution must be regarded as the opinion of the mercantile classes as well as that of the planters.

As regards the labourers, it is only necessary to say that, of course, large numbers have been thrown out of employment, while in a large number of cases their wages have been reduced from 12½ to 30 per cent. All classes have naturally suffered along with them. When I this year visited, after a four years' absence, what was once the most prosperous part of India (the western border of Mysore), I was astonished at the change, though I had confidently predicted it in 1893. The roads were deserted, and all signs of the former prosperity had vanished. One of the oldest planters said to me, "The country is in ruins," and that this ruin was owing to the currency policy all the planters are agreed.

Turning now to the tea-planters, it is necessary to do little more than quote the following passage from a memorial lately addressed to the Viceroy, which was signed by 302 persons and firms having under cultivation a total of 380,604 acres. "The closing of the Indian mints," says this large body of memorialists, "and the subsequent advance of the Exchange to 1s. 4d. had an adverse effect on the tea industry, and many tea estates, which with a low rate of exchange could have been worked at a profit, are not, as matters now stand, capable of earning sufficient to meet their outgoings, and must in time be abandoned unless some change in the conditions can be brought about." We thus see that the Indian Government has, as in the case of coffee, been spreading ruin around, and may be likened to the locust, which finds a paradise in its front and leaves a desert in its rear. Mr. David Yule, Chairman of the Bank of Calcutta, when alluding lately to the very low state of the tea industry, mentioned the case of an estate—

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a going concern, which had probably cost £10,000—being sold at Calcutta for £350. But it is useless to continue this branch of my subject, as it is so clear that industries hampered by a currency policy which indirectly taxes exports by 25 per cent. can never thrive, and in the best of times must always be a more or less perilous condition.

Let us now briefly notice the effects of the currency policy on a Native State, and take Baroda, for instance. I have been told by an able and well informed correspondent there that the policy has been attended with loss and inconvenience to the cultivators, the officials, and the Government. As to the first, they, of course, shared the fate of all producers of articles of export by getting fewer rupees for their cotton and other export produce, and in the course of six years were so reduced in circumstances that at the first touch of famine in 1899-1900 the Government relief works were crowded ; the poverty of the Guzerat cultivators astonished the Bombay Government, as, not long ago, they were supposed to be in excellent economic condition. In consequence of the adoption of the British currency in place of the former native currency, the cultivator, when he pays his labourers two annas a day in the former instead of the latter, finds himself proportionately poorer. The people have begun to take note of the fact that their silver ornaments, have lost their former rupee value. As regards the cultivator, the sum of the matter is this, that his taxation remains the same while his expenses are increased, and he gets fewer rupees for his produce for export, and finds that the stored values he had in the shape of silver ornaments (the poor man's stocking) have largely fallen in value owing to the closing of the mints. Can we wonder, then, that the cultivator is now much less able to contend with famine and scarcity than he was before the mints were closed? My informant concludes his letter to me thus : "The currency policy has beggared petty cultivators, ruined big proprietors, and created ill-feeling in the minds of the people owing to their knowledge of the fact that, by

some Act of Government, their silver ornaments have been rendered less valuable."

With reference to the Bombay mills, some are bold enough to assert, just as Lord Curzon did when referring to the condition of the planters, that the decline of the industry has nothing to do with the currency measure, and that over-production is the great cause of the evils the mill-owners complain of as arising from the currency policy. It is, I need hardly say, perfectly evident that the mill-owners have suffered in common with all producers, and that the trade between India and China has been injured by the legislation, though to what extent it is not now necessary to inquire.

When I turn to the gold-mines of India, I am able to say that, in the case of the Mysore gold-mines, from information specially supplied to me by an eminent firm of mining engineers, a rise or fall in the exchange of *id.* in the rupee makes a difference in the group of mines they are connected with of £29,256 13s. 8d. per annum, so that, making an ample allowance for *per contra* advantages, the undertaking in question can hardly be losing less than £100,000 a year from the artificially enhanced exchange. It is a constant subject of remark that capital will not readily go to India—a complaint lately made in Calcutta by one who ought to know well, Mr. David Yule. That it does not go readily is not to be wondered at; the wonder is that it goes at all. When I was in Bombay last spring a native merchant observed to me that the Government did not care a straw for the Ryot or Indian industries, and from the refusal of the Government to inquire into the most widespread grievances of both the remark was perfectly natural.

Let us consider, lastly, the case of the holders of silver ornaments, and as the consequential results here are serious, it is advisable to treat the matter with some minuteness. We have it on the evidence (given before the Currency Committee) of Mr. F. C. Harrison, Accountant-General, Madras, that, previous to 1893, every bit of silver in orna-

ments of that metal had probably been a coin, or part of one, at some time of its existence. The reason of this is that the silversmiths who make the ornaments have no capital, and the person who desires them no confidence in buying bullion, as he might, and probably would, be cheated. He therefore hands rupees to the silversmith, and makes the ornaments in the presence of his employer for the time being, who pays a certain fee for the work. In consequence of this practice it is possible to make an estimate in two ways of the probable amount of money melted down for the purpose of making ornaments, and the first is that given by Mr. Harrison in his evidence, which consists of estimating the imports of silver bullion, and then deducting the value required for coin in circulation. The balance will show what must be held in ornaments or hoarded rupees. But this method is not very satisfactory, as he says that the estimate of coin in circulation may be largely erroneous, and the probable proportion held in ornaments and hoarded rupees must be a matter of conjecture. But what we are solely concerned with here is the probable amount of rupees melted down for ornaments, and I think we could have got much nearer to this if we had formed some estimate of the amount spent on them on the occasion of marriage. This I did to a certain extent when estimating (*vide* my 'Experiences of a Planter in Mysore,' London, 1871, vol. i., pp. 77-79) the progress of the country as evidenced by the increase of the sums spent on marriages, and the tables which were then prepared of the marriage expenses of twenty-two different castes in Mysore are interesting and instructive, each item of expenditure being put down separately, and had the Government wished to ascertain the immense extent to which they were mulcting the people they might easily have formed a fair estimate by making investigations on the same lines. It is impossible to give all the details here, but on estimating the amount spent on ornaments on the occasion of marriage, and adding a certain amount for ornaments made at other times,

it seems quite impossible to estimate the total value of them at less than 300 crores (Mr. Harrison's estimate is 250 crores), or, say, 300 millions sterling, as for purchases in India we may assume that this estimate is sufficiently near the mark.

The natives of India, then, went to bed on the night of June 25, 1893, with a value in hand in the shape of ornaments of about 300 millions sterling, and went to bed the following night minus at least one-half of the values they held the day before. In other words, the currency measure of June 26, 1893, deprived the people of about 150 millions sterling, equal at 12 per cent.—a moderate native rate of interest—to 10 millions sterling a year. The first effect of this serious confiscation was to make money much dearer to the poor and needy, as the money-lenders, who had lent on the security of ornaments as being of the same value as the rupees melted down to make them, could not recover their capital, and so they, to make up for their losses, raised their rate of interest. But the currency measure, as we have seen in the case of the industries previously considered, of course fell with great severity on the classes the Government ought to have most carefully fostered.

The Government, by what was generally held to be a gross breach of good faith, then cut off about one-half of the values the people had reason to deem safely their own, and if, as Lord Curzon stated in his Budget speech, one of the great duties of Imperial statesmanship in India is to keep "the people and their property safe," we cannot congratulate the Government of 1893 on their interpretation of the latter part of the duties in question. And it must be remembered that these ornaments were not mere values, as it were, buried in the ground, and the second-hand value of which might be uncertain. They really were readily realizable securities of a certain fixed value, the equivalents of the rupees melted down to make them, and taking their place, just as money does, in the work and progress of the country. All those who are familiar, as I am, from having

lived amongst the people, with the immense importance of small amounts of capital when they fall into the hands of the peasantry and labouring classes, must at once see how this cruel mulcting of the people must have affected the prosperity of the country. It will also recoil on the Government, and is doing so at this moment, as the melted down rupees were not only the poor man's stocking or savings bank on which to rely if money were required for any object, but were regarded as a reserve, and, as we know, was commonly used to fall back on in times of scarcity or famine. But the Government apparently cannot see that by injuring the poor they increase the demands of the people on the State in times of famine.

As regards the producers of India, the leading points of the situation have thus been summarized by a very able writer: (1) The Government revenues gain by the artificially high value which has been given to the rupee. (2) This gain to revenue is a loss to a portion of the community. (3) The portion of the community which lose is that which buys rupees. (4) The producing portion buys rupees, and therefore loses. (5) Its loss is equal at present to a loss that a 20 or 30 per cent. export tax would entail. (6) This tax on Indian production acts as a bounty in favour of competitory countries.

To inquire as to what should be done in order to repair the injury inflicted on the holders of silver ornaments would carry me far beyond the scope of this paper. As regards the case of the producers of India, the illustrations given obviously lead to the conclusion that, if ever Indian industries are to prosper, as they might and should, the rate of exchange must be lowered; in other words, the export tax imposed through the medium of the artificially enhanced rate of exchange must be reduced. The state of the finances is such that this relief can easily be carried out. Lord George Hamilton has publicly declared that part of the wonderful surplus recently attained, and which seems certain to continue in future years, should be devoted

to the encouragement of Indian industries. How can these be better encouraged than by relieving them of the heavy burden of that enhanced rate of exchange, which acts not only as a depressing cause to industries in existence, but as a deterrent to those who might otherwise be ready to embark in Indian enterprises? The producers should therefore ask for a reduction in the rate of exchange, and, should they be refused, pray for a thoroughly representative commission of inquiry to sit in India. It may be as well to point out here that in asking for a reduction in the rate of exchange producers would not be asking the Government to reverse its currency policy. On the contrary, they would only be asking the Government to move on those lines it has clearly declared itself open to do should circumstances demand a modification in the rate of exchange; and I may remind you that it was authoritatively stated before the Currency Committee that "The Government did not bind itself to fix 1s. 4d. as a permanent rate, nor any other rate for any fixed period of time." I earnestly hope that those interested in the welfare of India may press this matter at once, as if some relief cannot be obtained now the difficulty of obtaining any relief of taxation in the future will be enormous, as the habitual extravagance of the Indian Government will soon swallow up any surplus, and in the course of time, and perhaps no very distant time ahead, we should find an outcry from the Indian officials for a further rise in the rate of exchange. And we must remember that the Indian officials are the Government, and that it was their persistent agitation which created and maintained the true force of that movement which paved the way for the introduction of the currency legislation.

But how are those who are, directly or indirectly, interested in India to obtain effective attention? Lord George Hamilton, we must remember, is one of the type of ordinary English politicians, and their principle is to sit still till evils have arisen to an extraordinary height (as we know to our cost at the present time especially), or till widely

spread public demonstrations enforce their attention. They regard mere paper efforts, if they notice them at all, with a mildly sympathetic smile. This is a point which the producers of India are now beginning practically to recognise, and I am in a position to state that a movement has been initiated in Bombay for the formation of a Currency Reform League, which, I have no doubt, will soon be joined by all Europeans and all intelligent natives. A movement as regards currency reform has already been initiated by the Indian Congress, which has branches all over India. In the end all India will be firmly arrayed against the Government on this question, and then the country will obtain effective attention.

It is important to note here that an attempt has been made in the Indian press to play what I may call the "disloyalty-trick" on the producers of India because they propose to combine against the Government. In opposing the destructive currency policy of the Government the producers of India will be giving most decided evidence of their loyalty to the Crown and the people of England. They owe none to that small and fleeting body of perhaps a dozen officials who have caused and who are continuing to inflict on the people and producers of India the immense losses, annoyances, and evils which have arisen from the currency legislation.

One word further. There is an Eastern proverb which says: "Do not tell your secrets to your wife, nor trust an enemy at any time," and producers must recognise the fact that, judging by the experience of the past, they are now engaged in a contest with a Government which, if it does grant an inquiry, will be careful to see that they are prevented from having either a fairly constituted committee or a fair hearing. Though Indian landed interests were, of course, chiefly concerned, not a single person directly or indirectly connected with the land was called before the Herschell Committee. Its verdict in favour of the Government was given in the teeth of the majority of the twenty-

two witnesses examined, and whose opinions, from their character and position, were of great value. There were, indeed, only two independent witnesses in favour of the measure, and of these one, I am informed on good authority, has since changed his opinions. On the Fowler Committee Lord George Hamilton secured a majority of officials and ex-officials, two of whom, when in India, had taken an active part in urging the adoption of the measure. The most urgent representations of the Ceylon Government and people (their currency and circumstance being on the same footing as those of India) failed to obtain a seat on the committee for a well-known Ceylon planter (Mr. Christie), and had he been appointed his evidence could hardly have been suppressed. If, then, a commission of inquiry to sit in India, and mainly composed of independent and well informed members, like my friend Sir Robert Giffin, for instance, cannot be obtained, the producers of India should proceed with their agitation till effective attention is given to their grievances.