

THE STANDARD OF VALUE

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TO
THE MEMORY
OF
DAVID RICARDO

“GOLD AND SILVER HAVING BEEN CHOSEN FOR THE GENERAL MEDIUM OF CIRCULATION, THEY ARE, BY THE COMPETITION OF COMMERCE, DISTRIBUTED IN SUCH PROPORTIONS AMONGST THE DIFFERENT COUNTRIES OF THE WORLD, AS TO ACCOMMODATE THEMSELVES TO THE NATURAL TRAFFIC WHICH WOULD TAKE PLACE IF NO SUCH METALS EXISTED, AND THE TRADE BETWEEN COUNTRIES WERE PURELY A TRADE OF BARTER.”

—*Ricardo.*

PREFACE

THE Indian Mints were closed to the unlimited coinage of silver on 26th June, 1893, with the object of establishing Gold as the Standard of Value in that country, and this measure practically closed the Bimetallic Controversy. The Government of India have been so far successful in their policy that the Gold Standard has been effectively maintained in India since 1898, the par of exchange being 1s. 4*d.* per rupee.

Questions connected with the Standard of Value and the Currency have but little attraction for the general public, and to many persons the Bimetallic Controversy must have seemed little more than a war of words.

In reality a very important issue was involved in it, namely, whether the Standard of Value of the world should in the future be Gold alone, or whether it should be formed of a combination of Silver and Gold as it had been in the past.

I was employed in the Financial Department of the Government of India when the divergence in the relative value of Gold and Silver began to declare itself and, as the fall in the Indian Exchange had a serious effect on the finances of the Government of India, the subject forced itself on my attention.

In 1886 I published a work called the "Theory of Bimetallism," and I was a Member of the Royal Commission on Gold and Silver which sat from 1886 to 1888.

I was subsequently Finance Member of the Council of the Governor-General of India, and took part in the measures for the introduction of the Gold Standard into India. I was afterwards a Member of the Committee which recommended that the gold value of the Indian rupee should be fixed at 1*s.* 4*d.*

Although Bimetallism is no longer a live question, other problems connected with the Standard of Value will arise in the future, and I have decided to place on record the conclusions at which I arrived as the result of my experience and study of the subject, and also to state the circumstances under which it was decided to introduce the Gold Standard into India and explain the procedure adopted for that purpose.

I cannot hope to give the trained Economist fresh light on questions with which he is already familiar, but what I have to say may be of some assistance to the man of business who may be forced by circumstances, as I was, to give his attention to the subject.

I feel that some apology is needed for the length of my remarks on the subject of the Quantity Theory of Money and the Relation between Credit and Prices, but at the time of the Bimetallic Controversy the questions connected therewith had not been so thoroughly investigated as they have lately been, by Professor Irving Fisher, and other Economists, and the applicability of the Quantity Theory of Money to modern conditions was denied, while, as it seemed to me, wholly untenable theories were put forward regarding the relation between Credit and Prices. It is for this reason that I have felt bound to offer certain remarks in defence of a theory which, rightly understood, ought never to have been challenged.

The closing of the Indian Mints was not an isolated action, carried out by the Indian Government without reference to the circumstances of the time.

It was the outcome of a general movement

towards the substitution of Gold for Silver as the Standard of Value in the civilised world, and the Government of India, though involved in serious trouble owing to the fall in the Indian Exchange, had long hesitated as to the expediency of attempting to change the Standard from Silver to Gold.

The origin of the movement towards a universal Gold Standard was the adoption of a Gold Currency in England after the recoinage of the silver money in the time of William III., but the difficulties which the Government of India experienced were the result, direct and indirect, of the change from the Silver to the Gold Standard made by Germany after the Franco-German War of 1870. The action of Germany set in motion forces which put an end to Bimetallism and led to the almost universal establishment of Gold as the Standard of Value. China is the only great nation which still uses the Silver Standard.

As the adoption of a Gold Standard by the Government of India was only one step in a world-wide movement, fundamentally affecting the Relations which had existed between Gold and Silver for a very long period, the reasons for, and against, the change cannot be understood

without some examination of the history of the previous use of the Precious Metals as the Medium of Exchange, and Standard of Value ; but, though I refer to what was done in very early times, I deal briefly with the historical portion of the subject, and only at such length as is necessary to explain the nature of the change in the Standard of Value of the world which was made subsequent to the year 1870.

My best thanks are due to Lionel Abrahams, Esq., C.B., and William Robinson, Esq., of the India Office, for the assistance they have given me in connection with the preparation of Chapter XVII.

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