

SELECTION

FROM PAPERS RELATING TO

THE INTRODUCTION

OF

A GOLD CURRENCY IN INDIA.



CALCUTTA:

OFFICE OF THE SUPERINTENDENT, GOVERNMENT PRINTING, INDIA.

1899.

CALCUTTA:

GOVERNMENT OF INDIA CENTRAL PRINTING OFFICE,
8, BASTINGS STREET.

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I.

FINANCIAL DEPARTMENT.

DESPATCH TO THE HON'BLE THE COURT OF DIRECTORS OF THE EAST INDIA COMPANY, No. 36, DATED THE 2ND JULY 1852.

We have decided on bringing to the immediate notice of your Honourable Court the peculiar position of the gold coinage in India.

2. By Act XVII of 1835 of this Government it was enacted that five, ten, fifteen and 30 rupees gold pieces only should be coined in the Indian Mints, and that no gold coin should thenceforward be a legal tender of payment in any of the territories of the East India Company.

3. By a subsequent Proclamation issued on the 13th January 1841, officers in charge of public treasuries were authorized to receive freely the gold coins struck under the provisions of the foregoing Act at their denominated value until they should have passed a certain limit of lightness when they were to be taken as bullion only, by weight.

4. It is not clear what was the precise object in thus engaging to receive coins which were no longer a legal tender of payment. If the market price of gold exceeded the denominated price of the coin in silver, then it was certain that no gold would be received at all, whereas on the other hand if the price of gold fell in the market below the silver denomination of the coin, in that case the Government would be bound to accept payment in a coin that was of no use to it, since it was not a legal tender and could not be re-issued in discharge of public liabilities.

5. The case would have been different had gold been permitted to continue a legal tender equally with silver, for then though the cheaper metal of the two would have had a tendency to displace the dearer as a currency, still though gold were the cheaper, the Government would have been on equal terms with the public, for it could equally have made use of its receipts in gold for re-issue.

6. By adopting the course it did of declaring gold no longer a legal tender and yet undertaking to receive it in liquidation of demands, it laid itself under the disadvantage of being open to be embarrassed with a coin which was of no use and must ordinarily have been paid for above its value since experience has not shown that gold and silver can ever retain so exactly the relative value to each other of 1 to 15 as to circulate indiscriminately as currency without variations of price.

7. This inconvenient result is now forcing itself on our attention, and threatens to become still more serious in consequence of the recent discoveries of gold in New South Wales.

8. The quantity of gold in the Indian Treasuries at present is upwards of 30 lakhs of rupees worth, and the tendency has been gradually, though somewhat slowly, to increase for the last two years. This amount in itself would not have embarrassed us, though obviously there is no advantage in being in

possession of so large an amount of coin of which we can make no use in aid of the public expenditure in India.

9. But we have reason to believe that speculations are already in progress for forming connections with Australia for the express purpose of bringing up gold when the direct line of steam communication is open next year in order to take advantage of the Government Proclamation of 1841 by which gold is still receivable at 15 rupees to the so-called gold piece; and in this case we run the risk of being seriously inconvenienced by an excessive stock of this metal.

10. It is true that gold might be made use of as a remittance to England in liquidation of a portion of the supply annually required for the service of your Hon'ble Court's Home Treasury, but as it might then go, not in adjustment of the balance of trade between the east and the west, but only because it was of no use as coin in India, we apprehend that the possibility of so employing it can form no sufficient argument for continuing to receive what, by the existing law, is not a legal tender of payment in this country.

11. Looking at the question in this light we are of opinion that the Proclamation by which gold is now receivable into the public treasuries at 15 rupees to the Company's gold mohur should be withdrawn, and the existing law enforced that declares gold not to be a legal tender of payment in the territories of the East India Company.

12. Unless therefore we receive your Hon'ble Court's instructions to the contrary in reply to this letter, we shall carry our views into effect, as we consider the public entitled to early notice of a change of practice that must materially interfere with their speculations in gold.

II.

DESPATCH FROM THE HON'BLE THE COURT OF DIRECTORS OF THE EAST INDIA COMPANY, No. 52, DATED 20TH OCTOBER 1852.

1. In your Despatch in this Department, dated the 2nd July 1852, No. 36, you draw our attention to the position of the Gold Coinage of India.

2. You observe that the effect of the Proclamation* of the 13th January 1841, authorizing officers in charge of Public

* Officers in charge of Public Treasuries are hereby authorized freely to receive these gold coins (mohur, half mohur, third mohur, and double mohur) at the rates, until further orders, respectively, denoted by the denomination of the piece, until they shall have passed the limits of lightness allowed for wear laid down in the annexed table, when they will only be receivable as bullion, and be subject to a deduction of one per cent. for seignorage.

Treasuries to receive freely, at their denominated values, the gold coins struck under the provisions of Act 17 of 1835, has been and likely to be still more embarrassing to your Government. The extensive discoveries of gold in Australia having had the effect of diminishing its value relatively to silver, holders of gold coin have naturally availed themselves of the opportunity of obtaining at the Government Treasuries a larger price in silver than they could obtain in the market, and gold not being a legal tender of payment, you are unable to re-issue the coins so received in discharge of public liabilities. Hence, under the existing practice the flow of gold coin into the

Government Treasuries is certain to increase with the augmentation of the supply and the consequent cheapening of gold bullion, whilst your Government will not find it practicable to make any use thereof in aid of the public expenditure in India.

3. Under these circumstances it is obviously important at once to check the receipt of gold into the Indian Treasuries, otherwise every kind of speculation in gold will be encouraged to the detriment of the Government. But we have never regarded the Proclamation of the 13th January 1841 as conveying the interpretation which you give to it. It did not appear to us to impose upon the officers in charge of Treasuries an *obligation* to give silver for gold, but only to authorize them to receive gold in exchange for silver if it suited their convenience to do so. In our Despatch in this Department, dated 23th May 1851, we made the following remark with reference to the Proclamation in question—"For the public convenience you may consent to receive them (the gold coins) into your Treasuries, and to exchange silver for them, at fixed rates, but for your security you will decline to continue to receive them at a loss, or, in other words, you will refuse to buy gold above its real value, and thus give an undue profit to the merchant at the expense of the State."

4. From the tenor of your present observations, however, we conclude that you hold a different opinion as to the purport of the Proclamation of 1841, and that so long as it continues in force you consider it binding upon Treasury Officers to receive the gold coins in exchange for silver at their denominated values. In this view, we entirely approve of your intention to give immediate notice of the withdrawal of the Proclamation, but it will still remain for you to consider the important question, whether it be desirable to continue to denominate the gold mohur as equivalent to 15 rupees, when its real value is shewn not to be so great. It may be premature at present,

or until further and more definite experience has been gained of the extent of the new supplies of gold, to adopt a measure which would alter the monetary denominations, yet as every day is forcing the subject into prominence, it is well to be prepared to take measures for adjusting the relative nominal values of the rupee and the gold mohur when you may be able to effect it.

III.

**NOTIFICATION IN THE FINANCIAL DEPARTMENT No. 26, DATED THE 22ND
DECEMBER 1852:**

By Section 9 of Act XVII of 1835 of the Government of India, it was enacted that thenceforward no gold coin should be a legal tender of payment in any of the territories of the East India Company and accordingly gold ceased, from the date of passing of the Act, to be a legal tender of payment in the Company's territories in India.

But by a proclamation issued on the 13th January 1841 officers in charge of public treasuries were authorised freely to receive gold coins struck in conformity with the revisions of the Act XVII of 1835 at the rates indicated by the denomination of the pieces until they should have passed certain limits of lightness set forth in a table published with the proclamation, or until further orders and gold coins have been thus received in liquidation of public demands up to the present time.

Notice is now given that so much of the proclamation of the 13th January 1841 as authorised the receipt of gold coins into the public treasuries of Government will be withdrawn and cancelled from the 1st January 1853, and that on and after that date no gold coin will be received on account of payments due or in any way to be made to the Government in any public treasuries within the territories of the East India Company.

Gold will continue as heretofore to be received into any of the Mints within the countries of the East India Company for coinage under the Act and rules at present in force for the coinage of gold, but Mint certificates for gold coins will be discharged in gold only, and no such certificate for gold will be accepted in any public treasury in liquidation of public demands or on account of any payment to the Government whatever.

IV.

MINUTE, DATED 25TH DECEMBER 1859, BY THE HONOURABLE MR. JAMES WILSON ON THE PROPOSAL TO INTRODUCE A GOLD CURRENCY IN INDIA.

In the Financial Despatch No. 109, dated the 4th of November 1859, from the Secretary of State, upon the subject of a Paper Currency for India, the consideration of the Indian Government is invited to the question which has recently been much discussed, of introducing the English "Sovereigns" or some other gold coin into the circulation of India, as being one intimately connected with that of a Paper Currency.

2. The discoveries of gold of late years, and its diminishing price in relation to silver, added to the great demand which has latterly existed, for the latter metal for shipment from England to India and China, have combined to create a strong public feeling in favour of making use of gold in some form or other as part of the circulating medium of India.

3. No one will be inclined to deny that if we had to begin a system of currency *de novo*, the most convenient of all the various systems now in practice would be found to be that used in England, where gold is the standard, gold coin the general money in circulation, and silver tokens of limited tender, the subordinate coins.

4. But we have to deal with a long established standard of silver in India, in which liabilities to a large amount, in the shape of public debt, and obligations of varied character running over a long series of years, have been incurred in silver. For it must be borne in mind that a contract to pay a given sum of money, is nothing more nor less than a contract to deliver a given weight of that metal which is the standard at the time the contract is made, and that to alter or vary the standard, and to adopt another metal because it is cheaper, is simply to enable the debtor to break faith with the creditor. It is true that the metal in which a debt has been contracted may fall in value by a large increase in its quantity, but that is a risk which the creditor runs, and of which he has no right to complain; in like manner the metal may rise in value, but that is a risk which the debtor incurs when he enters into the transaction and of which therefore *he* has no right to complain. If two men enter into a contract, one to deliver, and one to receive a given quantity of wheat, at a distant day, however much wheat may have fallen in price in the meantime, the receiver has no right to complain any more than the deliverer would have, had it in the meantime risen as much in price. But if the person whose duty it was to deliver wheat, finding that it had risen much in price since the contract was made, sought to deliver barley or some other grain, which in the meantime had become relatively cheaper, the injustice of such an attempt would be plain. But it would be equally unjust after a contract had been made in a silver standard, to change the standard into gold, because it was becoming more plentiful, and in relation to silver, likely to become cheaper.

5. Since the first discovery of California this subject has been much forced into discussion owing to the various ways in which a great and sudden increase in the supply of gold was likely to affect various countries. The first impression was that a great fall would take place in the price of gold as measured in silver. Up to this time, however, the change in the relative value

of these two metals does not at the outside exceed 5 per cent. Before the gold discoveries silver was rarely so low as 4*s.* 11*d.* the oz. ;—since, it has seldom reached or at least exceeded 5*s.* 2*d.* the oz. But under the apprehension of a fall the Government of Holland, proverbial for its caution, was the first to take alarm, and having then a circulation of both gold coins and silver coins, which were a legal tender at a fixed relation to each other, they demonetised the gold coin, leaving silver, the ancient standard the only legal tender.

6. In Belgium a similar state of things existed. Their standard and chief coins were silver, but they had, chiefly for the convenience of travellers, attached a fixed rate to the gold coins of England and France, and had coined 20 franc pieces of their own. They followed the example of Holland, demonetised gold and fell back upon the single silver standard and coin.

7. In India coins both of gold and silver were in partial circulation. The mint proportion which those coins bore to each other was that of 15·153 of fine silver to 1 of gold. The gold coin was not however a legal tender, but as the intrinsic value of the gold coin in the market was at least equal to the silver rupees which it represented, there was no difficulty in passing them, and the Government accepted them in the public treasuries at the nominal rate at which they were coined. But as soon as the price of gold began to fall, and the gold mohur piece was no longer of the same value as 15 silver rupees, it was evident if the Government continued to receive them into the treasuries without the power of paying them out at the same rate, that a great accumulation of gold pieces would have taken place, which the Government could not use as money, and upon which in the sale it must have lost considerably. To avoid this, the Government had the choice of two plans, the one to reduce proportionately the rate at which the gold coins would be received so as still to leave a margin for loss, the other to prohibit the receipt of gold coins altogether and to accept only the legal tender coins of silver.

They adopted the latter.

8. In the United States at that time they had a double standard of gold and silver, and coins of each metal. But as silver became dearer in proportion to gold, it was shipped away to so great an extent as to lead to great inconvenience for the want of small coins, the place of which could not be supplied with gold. In 1853 therefore the American Government had recourse to the plan of reducing the weight of the silver coins (the dollar being reduced from 412½ grains to 384 grains of silver), so as to make them tokens like the English silver coins, limiting their tender to five dollars, and thus adopting a single standard of gold.

9. In France a double standard had prevailed at least since the decree of Napoleon the First in 1801. By that decree the relative value of gold and silver was fixed in the proportion of 1 to 15½, but as 6 francs are retained at the Mint for coining a kilogramme of gold into 155 pieces of 20 francs each and 1½ francs are retained for coining a kilogramme of silver into 40 pieces of five francs each, the proportionate value of the two metals as coined is 1 of gold to 15·54, rather above 15½, of silver.

10. From 1801 to 1850 the market price of gold had always a tendency to rise, and being more valuable in proportion to silver than the rate fixed by the Decree of Napoleon disappeared altogether from circulation and commanded a premium; silver consequently became the only actual circulation. Since the gold discoveries, the price of gold has fallen somewhat below the fixed rates, and in consequence, since 1850 a sum equal to *one hundred and*

thirty millions sterling of gold has been coined at the French mint, and a corresponding amount of silver has been exported. For many years prior to 1850 little or no gold had been coined. This has led to a daily increasing scarcity of small coin and to great inconvenience as a consequence. And it is quite certain if the price of silver continues to rise, that the French Government must resort to some such plan as has already been adopted in the United States in order to maintain in circulation silver coins for inferior denominations. Indeed it is chiefly the fact that a large portion of the silver coin now in circulation in France has become considerably reduced below their full value by wear that has prevented their being exported.

11. In all the German States in which formerly gold coin circulated at fixed rates they have been demonetized, and under a Convention made in 1857 to which I shall have further to allude hereafter, silver has been reverted to as the sole standard.

12. From these examples it would appear that wherever the integrity of the single standard had been in any degree departed from, the small change in the relative prices of the metals which has taken place, not exceeding as I have shown, 5 per cent., has immediately led to inconvenience and to an alteration in practice which in the matter of the money of a country is always to be deprecated. In England fortunately the single standard has not been tampered with, and it is accordingly almost the only country in which no change whatever has been made in consequence of the gold discoveries. No doubt there were at first not wanting those who being owners of the public stocks, or recipients of fixed incomes, endeavoured to create a feeling in favour of some change in order to avoid the depreciation in their property which they apprehended from the reduced value of gold. But they were at once reminded that all contracts were made in gold, and that whether gold rose or fell in value the contract as between debtor and creditor must be maintained.

13. With all this experience before us we are called upon to consider how far it would be wise again to tamper with the principle of a single standard in India by admitting gold coins into the circulation under some assumed regulation which would avoid inconvenience.

14. I at once say that I know of no conceivable regulations by which such an object could honestly be attained. But I am willing to consider all the various proposals which have been made for that purpose. These may be divided into five heads. *First*, some propose that the "sovereign" or some other gold coin should be introduced, and which should circulate at its market price from day to day measured in silver. *Second*, others propose that such a gold coin should be made bearing the exact value of a given number of rupees, say ten, and that it should be made a legal tender for that sum for a limited period, say a year, when it should be re-adjusted and again valued and made a legal tender for a further similar period at the new rate. *Third*, some propose that the English sovereign should be introduced as a legal tender for *ten rupees*, but limited in amount to twenty rupees, or two sovereigns. *Fourth*, some propose to preserve a single standard, but to change it from silver to gold, adopting silver tokens for subordinate coins. *Fifth*, some propose the simple adoption of a double standard of silver and gold which all the others repudiate.

15. As applicable to most of these schemes, I may remark that the chief object of a coin is that it shall represent a defined and fixed value, well known to the simplest of the people. When it is deprived of this quality

it is reduced to the mere condition of a commodity which is to be bought and sold at rates varying with the fluctuations of the market. The true attribute of the coin is thus gone.

16. This remark applies with great force to the first mentioned of the four plans for supplementing the Indian currency with gold coin. And if we consider what the practical effect would be, the proposal must be dismissed as wholly impracticable. Let a gold piece be coined to-day representing the exact value in gold of ten rupees, to-morrow the price of gold either from a change in its intrinsic value or from an alteration in the exchanges with England where it is the sole standard, rises to 10 rupees and four annas, next day it rises to 10 rupees and eight annas, in a day or two more an importation having taken place from Australia it falls to 9 rupees 12 annas, and then to 9 rupees 8 annas, and so on, being influenced by all the accidents from day to day which determine the price of gold expressed in silver.

17. These fluctuations moreover may not only take place from day to day, but even during the same day. It would be impossible that such coins could answer the place of money. The cambists and money dealers could no doubt buy and sell and deal in such coins just as they do now in the metal itself, but except the fact that the quantity and quality of the metal would be ascertained without weighing or assaying, they could just as easily deal in and buy and sell gold bars. To call a coin "money" the value of which could not be vouched for from one day to another, to say nothing of the trouble of ascertaining and computing the fluctuations, would be a mere misnomer, and it is certain that no community would suffer the risk and inconvenience of such a system that could possibly avoid it.

18. The second plan proposed, though not open to the same objections, is still open to others almost as grave. A gold coin is to be made the exact value of 10 rupees, it is by law to be declared a legal tender for that sum for a year or some specific period of time, both in the hands of the Government and the public. During that period the price of gold measured in silver is continually falling, a profit is gained by the bullion dealers by importing gold, getting it coined, and forcing it into circulation at the fixed periodical rate. As the year draws to a close, when it is known that the rate will be revised, and the circulating value of the coin reduced in conformity with the fall of gold, every one makes an effort to get rid of the gold coin, a struggle takes place in which the public Exchequer takes a prominent part, for every one to divest himself of gold coins and thus to avoid an inevitable loss. But on some one it must fall, and there could not but be great dissatisfaction in the public to find on a given day the value of a large quantity of the coin in its possession which they had no choice to refuse, depreciated by 2, 3 or 4 per cent.

19. When the monetary convention was entered into between the Austrian Government and the states of the Zollverein in 1857, with a view to obtain a uniform and general currency, silver was adopted as the existing standard, but as some States were anxious to retain a right of coining gold, after the greatest consideration no better plan could be devised than this most imperfect one. But the difficulty of giving a fixed value was found to be so great that Article XVIII of the Treaty declares that—

"The silver value of the conventional gold coins will be alone regulated by the relation of the supply to the demand, and they will therefore not possess the property of representing an amount of legal silver coinage as a medium of payment."

But it is further provided by Article XXI—

“That each State is to be at liberty to allow such gold coins to be taken at their treasuries in lieu of silver at a rate of exchange to be beforehand decided upon, such pre-decided rate of exchange shall last at the utmost six months, and at the close of the last month, is to be each time re-considered for the next similar period.”

20. As far as I can learn and as might have been expected, a system of gold currency so imperfect and exposed to such uncertainty has practically remained a dead letter. To show the opinion which the parties to the convention entertained of the plan, they took care in Article XXII to stipulate that all paper money issued by the State should be solely for silver and payable in that metal. I may conclude then that it would not be thought desirable to adopt this plan.

21. The next and third proposal is to permit the circulation of the sovereign to a limited amount, say of *twenty rupees*. This idea seems to have originated in the system adopted in England of giving to the silver coins the character of tokens, not of full value and limiting the amount of tender. But it must be borne in mind that while this can be done with the low priced metal which represents small transactions, it cannot be done with the high priced metal, the chief object of which is to represent large payments. The objections to the plan may be thus stated. As long as gold was of a value above the ratio which the coin represented, it would not be circulated at all, but when it fell below that value, every effort would be made to force it into use. The consequence would be that shop-keepers and small dealers would receive many of their payments in a coin with which they could not make large payments without a loss. They might receive £100 in a day from 50 customers, and when they came to place the £100 in the bank or to use it for a payment to a merchant, they would have to submit to a loss equal to the discount upon the gold. From the mint regulations in England a similar loss cannot happen. A similar source of loss would be experienced by railway companies whose fares would be paid in a coin which they could not dispose of in large sums except at a loss.

22. The fourth proposal is to adhere strictly to a single standard but to change it from silver to gold. As I have already said, I freely admit that if we had to begin *de novo*, convenience would point to a gold standard with silver token coins as the best. Although public opinion has been by no means agreed upon this point, it is curious to observe the fluctuations of views upon this subject and how much they are governed by expediency and convenience at the moment. In 1837 during the panic silver happened to be rather abundant in the London market, and difficult to be converted into bank notes or gold, not being a legal tender. A great pressure from the merchants of London at that time, and again in 1847 under similar circumstances, was made upon the Government of the day to admit silver into circulation, exactly similar to that which now prevails in respect to gold where silver is the standard. I have a very clever pamphlet lying before me entitled “The Injury, Insufficiency and Inconvenience of a Gold Standard,” in which arguments are used quite as strong against that system as now prevails against a silver standard. If a Government were to vacillate in a vital matter of this kind according to the convenience or interest either of the debtor class or the creditor class, the integrity of any standard would be entirely lost.

23. But though I admit that a gold standard does possess superior advantages, yet, as I have already shewn, in a country where all obligations

have been contracted to be paid in silver, to make a law by which they could forcibly be paid in anything else, would simply be to defraud the creditor for the advantage of the debtor, and to break public faith.

24. The fifth and last plan proposed is to adopt a double standard, such as prevailed in the United States previous to 1853, and such as still prevails in France. The system of a double standard is practically a permission for the debtor to pay his debts from time to time in the cheapest of the two metals. As I have already remarked, when such a system has existed from ancient times, and when under it the great bulk of obligations have been contracted, the creditor has no right to complain of being paid from time to time in the cheaper of the two metals because that was the condition of his contract. But in cases where a single standard has long prevailed, the adoption of a double standard is just as much a breach of faith as a simple change of the standard. For it must be plain that the introduction of a double standard is practically the adoption of the cheaper of the two metals at the time.

25. But unjust as such a change would be, inconvenient as a double standard has proved in practice, and inconsistent as it is in principle, yet I have no doubt if it is desired to have the use of both metals in a circulation of full value as coin, that it is the best mode in which that object can be attained. In all the other ways in which it has been attempted to circulate gold coin with a silver currency, the principle either of a varying value from day to day, or that of a periodical adjustment of value, the coin circulating in the meantime as a legal tender, has been found needful. Under either of those plans the holders are less or more subjected to immediate and individual loss; in the case of periodical adjustment as is proposed in Germany, it may be, to considerable loss. But in the operation of a double standard, the one coin which is gradually becoming of less intrinsic value, gradually and from day to day, displaces the coin which is undergoing appreciation; large supplies of the cheapening coin come from the mint, and corresponding quantities of the appreciating coin are bought up and exported at a profit; but as long as the two coins circulate together, and to whatever extent they do so, they are, in the hands of the public, of the same nominal value, and continue, without any intermission, to answer the same purpose for all daily uses. However objectionable therefore a double standard may be, and however inconsistent with theory, I hold it to be the least objectionable of all the plans yet proposed for combining the use of the two metals in coins of full intrinsic value circulating in the same currency.

26. But I would ask, what advantage could be expected from the adoption of gold in India. Upon this subject there is, I believe, much confusion of ideas. It is said that gold is becoming more plentiful, and that the demand for silver is making it scarce. Now the extent to which this is true in practice must be measured by the rise which has taken place in the market price of silver, which I have shown does not exceed 5 per cent. But supposing it were greater, would that be a reason for using gold? If India requires a supply of the precious metals it can only be obtained in exchange for its products in foreign markets, and the quantity of those metals, whether of gold or silver, will be obtained in the exact proportion which they bear to the products of India for which they are exchanged. India is quite as well off to receive silver as gold, and perhaps better inasmuch as silver seems to be an appreciating metal, while gold is probably still falling. Nor can it be deemed to be a disadvantage to India that the silver remitted for its

products has to be obtained in exchange for the gold received from California or Australia in London. These different movements in the distribution of the precious metals to the points at which the exchanges of the world direct them, are all determined by general broad principles which are self-acting and which any artificial attempt to disturb or control can only tend to derange.

27. In whatever form India receives its payments from the exterior world for the balance of its exports over its imports, whether in gold or in silver, can matter not, so long as the full value is received.

28. I know it is said that gold coins are much more convenient for circulation than silver. If this refers to the removal of Government treasure from one part of the country to another, then I much doubt if any important advantage would attend gold coins. The expense of removing coin is no doubt in a very small degree determined by its weight and bulk, but to a much greater extent by the necessity of protecting it. It would require just as much of an escort to protect the sum of £100,000 in gold, as if in silver, and perhaps even more so, inasmuch as the compactness and lightness of gold would render it a more tempting and handy prize to the robber, than bulky and weighty silver. Again I doubt much whether there would not be somewhat greater danger to local treasuries containing gold coin than silver. It is a very suggestive fact that during the Mutiny the gold mohurs of 15 rupees commanded such a premium owing to their greater convenience for concealment or removal that the price of 26 and 27 rupees was given for them.

29. But if the convenience referred to alludes to the use of gold coins for private expenditure, then I readily admit their value to that extent. But I would submit that for this purpose, and for all others that have been suggested, a well regulated paper currency, such as I have described in another Minute of this date, would answer much better, while the ancient single standard of the country in which all existing obligations have been contracted would be maintained in all its integrity.

V.

EXTRACT FROM A MINUTE BY THE HON'BLE S. LAING ON THE PAPER
CURRENCY BILL.

1. "There is another point of considerable importance, on which I purpose to introduce an amendment.

"The Bill, as now framed, contemplates the absolute and entire exclusion of gold from the circulation of India.

2. "I must confess that I feel very reluctant to base a great measure, for reforming the circulation of India, on the total exclusion; for all time to come, of that form of the precious metal which is indisputably the most convenient for many purposes, and which is the chief or sole standard of all the principal nations of the civilized world, with which we have commercial intercourse.

3. "Surely it is not desirable that the trade of India, with such countries as Australia or the United States, should be for ever taxed with the difference of the cost between sending gold direct here, or sending it first to London, then probably to France or Germany, to exchange for silver, and finally sending that silver to Bombay or Calcutta.

4. "It is universally admitted that, if we could begin *de novo*, the English system of a gold standard, with a silver token currency for small amounts and convertible paper for large payments, would be the most desirable; and, if we cannot at once attain this object, we ought, at least, to approximate to it as nearly as we can, and leave an opening for possible further progress.

5. "I am aware of the arguments urged in Mr. Wilson's able Minute of the 25th December 1859 against any form of a double standard.

"I do not concur with many of these arguments, more especially with the fundamental one, which lays down that it would be a breach of faith, under any circumstances, for the State to pay in gold liabilities contracted in silver.

6. "Several of the principal nations of the civilized world have practically changed their standard, without suspicion or breach of faith: France and the United States, for instance, from silver to gold, Holland and other States, from a double standard of gold and silver to one of silver only; and if this were the only obstacle, I think arrangements would be easy by which the public creditor might have the most ample security for being paid in *money*, represented by coin of not less intrinsic and not less exchangeable value than that which represented money, when the debt was contracted.

7. "But I do not wish to discuss the subject further, for the other practical difficulties of introducing a gold currency, concurrently with the enormous silver currency now in existence, are, if not insuperable, so great, that I should be afraid of delaying the measure indefinitely if I attempted to solve them.

8. "All that I propose is one simple alteration, not at all inconsistent with the principle of the Bill, as it stands, and of a silver standard. It is this:—

"In England, where gold is the sole standard, the Bank is authorized to issue paper, to the extent of not more than one-fourth of its circulation, against silver.

9. "I would reverse the process, and provide that, of the paper circulation of India to be issued against actual coin or bullion, a proportion, not exceeding

one-fourth, might be issued against gold coin or bullion, at rates to be fixed by proclamation, and which might be periodically adjusted with proper notice.

10. "The rate would have to be fixed so as to secure the State from risk of loss in having to convert this gold into silver, in order to meet the notes which had been issued against it; and this would necessitate a low rate at which gold would probably not be taken to the Mint, to exchange for paper under ordinary circumstances. But, on special occasions, and in particular transactions, it might be a great advantage to the mercantile community to know that gold could be made available, as money, at a fixed rate; and I think it not impossible that, with a minimum value thus established at which it could be taken at the Mint, and at Government Treasuries, the superior convenience of gold and its attraction for the Native population, might give it a marketable value, at which it would be largely imported. If, for the sake of illustration, the sovereign were taken at the Mint and principal Treasuries at ten, or the gold mohur at fifteen rupees, it is quite possible that their market value would range up to eleven or sixteen rupees respectively; in which case, without risk to the Treasury, and without disturbance to the silver standard, gold would flow in; a great convenience would have been afforded to international commerce, and to the general public; and a foundation of experience laid upon which, after careful induction, it might be possible to go further in the same direction.

"If, on the other hand, gold did not enter into circulation under these conditions, it would prove that silver, with a secure and convertible paper currency, gave perfect confidence, and answered all the wants of trade and of the community; and the enactment would remain a dead letter, and be perfectly harmless.

"The object would be attained by a short proviso at the end of the 9th Section."

VI.

EXTRACT, PARAS. 21 TO 24, OF A DESPATCH FROM THE SECRETARY OF
STATE, NO. 75, DATED 2ND MAY 1861.

21. "I am not insensible to the possible advantage which might arise from the introduction of the sovereign as the current coin of India (as it is, I believe, in Ceylon); but, at the present relative intrinsic value of gold and silver, no combination of Indian coins can express the value of the sovereign. If, by any change in the relative value of the two metals, a sovereign and 10 rupees were to become of equal intrinsic value, the sovereign might readily be introduced, and become the standard coin of India; but at present it can only be taken at its value as gold, and that value will vary from time to time, according to the demand at the moment for that metal.

22. "This value must be determined amongst traders for themselves; and the Government will only embarrass itself, and effect no purpose, by attempting in any way, to vary or alter the ordinary operations of trade.

23. "If gold should ever become the standard of India, the reserve of the Issuing Banks would be held in gold, and not in silver, and in that case all this provision of the Act would have to be changed.

24. "I will not, however, object to the power given by the clause; but I desire that it may be used to a very limited amount, and only in the Presidency towns."

VII.

EXTRACT FROM A MINUTE BY THE HON'BLE S. LAING ON CURRENCY AND BANKING, DATED 7TH MAY 1862.

1. "The only remaining point to notice is as to the partial introduction of gold. I have always thought that the step taken by the Indian Government in December 1852, of refusing to accept gold at the Government Treasuries, was a mistake. Gold being the most convenient and portable metal, and becoming more and more every day the currency of nearly the whole civilized world with which India has commercial transactions, it seems to me very undesirable to exclude gold altogether from the ordinary range of its monetary transactions.

2. "Were it possible to create *de novo* a currency for India, there can be little doubt that one similar to that of England would be the best, *viz.*, with a gold standard and gold coins for moderate sums, a silver token currency for small transactions, and notes representing gold for large amounts. But with a silver standard and an immense silver coinage actually existing, the introduction of a gold coinage becomes difficult.

3. "I do not agree with many of the objections which have been urged against the adoption of a double standard, and if the alternative had lain between this and the abandonment of the principle of uniformity, by issuing notes in distinct circles, I should not have hesitated to prefer the double standard.

4. "But this object being attained, there are no doubt difficulties in the way of a double standard, which it is better to avoid, and in fact the adoption of a double standard may be probably looked upon as a transition process to the abandonment of a silver and substitution of a gold standard.

5. "This involved an amount of change which, especially under existing circumstances, when a season of tranquillity and repose in financial and monetary matters is very desirable, I was not prepared to recommend; and accordingly the only provision respecting gold inserted in the Currency Act was one by which the Government were empowered to issue notes to a limited extent, never exceeding one-fourth of the issue represented by coin or bullion, against gold coin or bullion, at rates to be fixed from time to time, and not altered without six months' notice.

6. "The object of this was simply to leave the door open for cautious and tentative experiments with regard to the future use of gold. The importation of gold already exists and is increasing, and the metal is so much appreciated by the Native population as generally to command a premium. It might therefore be a convenience to importers, and an encouragement to increased importation, if it were known that a certain quantity of gold could always be converted into money at a fixed rate, while, if this rate were fixed with a little margin below the ordinary market price, and adjusted, if necessary, every six months, no risk of loss to the Government would be experienced. Thus, after a time, if the use of gold became more general, and its value more fixed, some further step might be taken; but in the meantime the clause would only be acted upon where it was shown that it would be a convenience to commerce, and that the Government would run no appreciable risk. Indeed I should recommend to Government to wait for a year or two's experience of the working of the system just inaugurated before they take any step to put this clause as to gold into operation, unless upon an application from the mercantile community of one of the Presidencies, based upon strong grounds of practical convenience, in which case notes might be issued for gold at a safe rate at the Central Office of Issue of that Presidency."

VIII.

MINUTE DATED 8TH MARCH 1864, BY HIS EXCELLENCY LIEUTENANT-GENERAL SIR W. MANSFIELD, K.C.B.

CHAPTER I.

The Memorial of the Chamber of Commerce should be supported.—Mr. Wilson's opposition to a Gold Currency in India.—Necessity of answering his objections.

The memorial of the Bombay Chamber of Commerce, praying for the introduction of gold currency into India, is, I trust, the beginning of a reform which is much required by the circumstances of the country.

When we consider all that may be said in favour of the reform, and how little can be asserted against it, a reasonable expectation may be entertained, that the prayer of the memorial will not pass unheeded by the Supreme Government and the Right Hon'ble the Secretary of State for India.

It would be difficult to put the facts which tell on the side of the proposed change, more cogently and clearly than has been done in the memorial under consideration. There is, nevertheless, the weight of a great authority in opposition, which must be removed by argument, before we can hope that success will attend the movement of the reformers.

That authority is the opinion of the lamented Mr. Wilson, who died at Calcutta as Financial Member of Council in 1860. This gentleman, distinguished alike as a financial statesman and a great economical writer, rested his objections to such a reform as is now asked for, on three grounds:—

Firstly.—That the change to a gold currency would involve breach of faith with the creditors, who had contracted their obligations in the form of silver.

Secondly.—That it was opposed to much of European precedent and example.

And thirdly.—That seeing that silver was now the legal tender, he could perceive no particular good in change, although he admitted that it would have been an advantage to the country, if gold had been the original legal tender instead of silver.

A careful perusal of Mr. Wilson's minute of 25th December 1859 "on the proposal to introduce a Gold Currency into India," has convinced me that the grounds of his opinion are in point of fact fallacies, which are incompatible with the development of the people, and with a feeling of equity towards all classes, the poor as well as the rich, indebted (in which I include the State) as well as the capitalist and the owner of land.

That minute has convinced me that, while Mr. Wilson allowed his imagination to be excited by the possible depreciation in the value of gold, as the effect of new gold mines might be still more felt, he overlooked the corresponding circumstance, that if, as he expected, gold throughout the world should fall still more in value than it had done when he wrote, silver, if stationary in the amount produced, would proportionally rise. He thus neglected to consider that, as a means of appreciating value, silver was

in truth as uncertain as gold, this being true, both with regard to new contracts hereafter to be made and to those of ancient date.

The perusal of his speeches and minutes on Indian Currency, has further persuaded me, that Mr. Wilson's views were formed without sufficient attention to the social condition and the habits of the great masses of the people of India.

He was thus led into error, both with regard to what it is possible to effect in the execution of currency changes and to the wisdom of reforms, to the general entertainment of which the popular mind has not yet been sufficiently educated.

It has appeared to me, therefore, to be a duty for some one to examine Mr. Wilson's minute and his views on the subject of a gold currency for India, according to the principles of Political Economy, of which he has so often been the able and uncompromising exponent.

The necessity of the investigation which, in the public interest, thus seems to me most urgently required, has apparently not occurred to any one else in this country. I proceed, therefore, with much diffidence, to take the duty on myself.

In deference to the great authority to which I find myself opposed, and to the importance of the enquiry, I have been obliged to take nothing for granted, but to follow Mr. Wilson's own example, when in a series of admirable articles he criticised the Bank Act of 1844. In short, at the risk of a charge of tediousness, I have felt it incumbent on me to consider the principles on which rests the idea of a Currency.

These being kept steadily in view, it has been sought to apply them in answer to Mr. Wilson's minute, and in support of the demand which has now come from the Bombay Chamber of Commerce.

CHAPTER II.

The economy of Gold as a medium of Currency as compared with Silver.—The practical consequence.

A Currency is the machinery of domestic exchange. So much of the medium as is absorbed in the metallic currency of a country is the material of the machinery.

The precious metals absorbed in a currency, are so much of the capital of a country which is devoted by the community to save it from living in a state of barter. The profits of the capital so employed return in the form of convenience, and the saving of labour and time.

The material or metal may be economised by the use of paper in various forms, but it being admitted that paper must always be convertible, it is sufficient to say that the metallic currency is the basis or material of the machinery, by which the operations of modern commerce are rendered possible.

It would seem, then, that when a community determines what shall be its metallic medium of currency, it should carefully consider the conditions of economy which it may present, as compared with other media.

Thus if a given medium, as being of more value, be more portable than another, it is preferable on such an account. Copper is better as a currency medium than iron, silver than copper, gold than silver ; on this ground alone, according to the advance made in a community towards wealth, and in the consequent increase in the number of transactions, to which it daily commits itself. So long as a community is very poor, the rude currency of iron or copper may suffice for its wants. A silver coinage is the indication that the community has passed out of the ranks of poverty.

When it is discovered that even to carry about the increasing masses of silver has become an intolerable labour, for which daily commerce in self-defence must find a substitute, we may be sure that a community has made an immense stride towards the possession, not only of moderate but of great wealth.

It is observed in such circumstances that a more valuable medium of daily exchange should be substituted for the silver, and gold, unless prevented by legal restrictions is sure to advance, to substitute itself for the silver, and to perform the duties hitherto discharged by the displaced silver.

But there are other reasons besides those of more portability, all of which tend directly to a like result. Thus whenever a large quantity of the precious metals is broken up into coins, and is constantly going through a course of circulation, a certain wear and tear or waste of the metal so employed takes place, in other words, an immediate loss of the National Capital.

If a coin of one metal (gold) is equal to ten coins of another metal (silver) assuming that a like degree of purity, hardness, and durability is mechanically given to both, it would seem at first sight that the degree of wastage in both would be exactly proportionate, and therefore that the results of loss to the national capital on this account would be equal. But this is not so for the following reason : the coin of greater value, is not so often turned over in the affairs of petty commerce as that which is of less value, and consequently the former escapes much of the wear and tear which attends the latter.

Again, the coining operations of the Mint, involving assay and manufacture, are reduced in amount, and therefore cheapen coin in an inverse ratio to the value of the coined medium.

Thus if a sovereign be equal to ten rupees in intrinsic value, it is many times cheaper to coin gold for general use, than it is to coin silver. The mechanical economy would be considerable, if it afforded merely a sufficient quantity of coins, for the daily purposes of domestic exchange.

But the reserves of the precious metal established as legal tender must be in great measure coined to meet drafts in accordance with legal demands. Consequently, a larger coinage must inevitably take place than would actually suffice for daily use. This is still more enhanced by the fact of the exportation of coins in the form of a commodity of trade, merely on account of their value as such, and without respect to their being a monetary element in the country they are leaving.

Such considerations are particularly important in India, where so much of the coined medium is retained in private hands, owing to a marked peculiarity of eastern habits. In consequence of this, a vast number of millions of rupees is kept in reserve by the people, on which the minting labour has been expended.

We have therefore in a gold coinage, as compared with a silver coinage, three elements of cheapness, which cannot fail to have a marked effect in asserting the superiority of gold as a circulating medium and one of metallic reserve :—

1st—Its superior portability.

2nd—Decrease of wastage.

3rd—Economy in mintage.

Now, if we accept the definition of a metallic currency, that it is a certain portion of the capital of a community which is abstracted from the whole without immediate return of any kind, for the purpose of enabling the community to pursue its business, in other words, to employ the remainder of its capital in the daily commerce of life, we cannot escape the conclusion, that that medium should be chosen to perform the particular functions of currency, in which mechanically it can be done most cheaply. In this we merely follow the same rules of reasoning and practice, that we apply when we substitute animal draught for porters, and the steam engine for horses.

It is particularly necessary to bear this in mind, to recollect that a currency is only the means of transacting business, that it is a machinery in the economy of which all men are interested, and therefore, that the medium has to be considered on account of such merits, just as we consider the relative merits of steam and horses. This view may be called the mechanical one. It is very liable to lose the attention which it deserves because of the difficult problems which come across the investigator, and of the manner in which the value of the precious metals as commodities occupies the mind, to the preclusion of the mechanical facts of their employment, and of the cost of those facts. Hence a great confusion arises. Even acute thinkers are thus apt to forget the important circumstances which have been stated to overlook the mechanical economy of using one metal (gold), as compared with another metal (silver). Nevertheless other conditions of relative value being preserved, this very mechanical economy would be quite sufficient to drive the lower metal generally out of circulation, were circulation allowed to adjust itself without the intervention of State laws or other restrictions. When arguing against the introduction of a gold currency for India, the late Mr. Wilson omitted to give these important considerations the weight they deserve. On the contrary, while he allowed that a gold currency would be more convenient than a silver one, he did not also add, as he should have done, that as a machine of daily commerce, a gold medium is much cheaper in the working than a silver one can possibly be. This fact should not have escaped a practical economist of his distinction. It is perhaps to be regretted that an authority of his calibre was lent to an incomplete statement on this very important part of the subject.

Having thus established the mechanical superiority of gold over silver as a medium of currency, that is to say, that it is superior as a means of machinery in point of economy, to silver, it would seem to follow that the State, in which term is conveyed the inherent governing power of a community, is bound to cause the more valuable metal to be substituted in the currency for the cheaper one, as soon as the community has become rich enough, to render such a change desirable for the greater convenience of daily commerce.

It will hardly be denied that the State should guard itself according to the manner in which a trading firm or corporation would proceed in defence of the interests of its constituents. Such a firm or corporation having a given function to perform, which requires the absorption of a certain portion of capital, feels bound to economise the means of action according to the improvements which may take place, and to the progress made by invention and experience. In this sense, to revert to our old illustration, it substitutes animal draught for porters, and steam engines for horses. It is not held that porters who have to seek another employment, have any grievance and we none of us can forget, how fruitless were the jeremiads of the old anti-railway party on the destiny of stage coachmen.

In the same manner, if the State finds an old official machinery which does not suit the times, such machinery, after more or less discussion, is invariably made to give way to adaptations, possessing greater convenience, as being more suitable to present exigencies than what is cumbrous, or has become obsolete in form.

The same rule and practice are precisely attributable to a currency, when considered in its character of machinery. The holders of an old and cumbrous medium can no more plead exemption from the effects of progress and development, than porters who find themselves supplanted by horses, or the stage coachmen who have given way before the steam engine.

The actual holders of the medium are also a portion of the community which benefits at large, by an economical reform of the currency, or the machinery by which transactions are carried on. The holders are generally interested in the measure of reform, just as the stage coachman is interested in the general improvement of the country by the introduction of the railways, and, in the possibility thereby afforded to him, of securing his existence somehow or other, though perhaps not on the coach-box.

In like manner, by having an economical currency given them, the holders of the old medium, though at first sight they might seem to lose by its demonetisation, whether with or without the aid of law actually gain in the end by the greater use they are able to make of it as a commodity of trade.

This ultimate gain to all classes we have seen both in France and in the United States.

The Government then being considered as the trustee of the community, is bound to afford to that community the cheapest currency or machinery, for conducting all the transactions of domestic exchange and deposit which can be devised by human skill and ingenuity. The obligation is one from which the State cannot escape.

The cheapness being the interest of the whole, must be preferred to individual interest if the two be found to run counter to one another.

There is no reason to believe that any such antagonism exists, it being found that any reform or measure which re-acts with favourable results on the whole body of a nation, is beneficially, however indirectly, experienced by all the individuals composing it. It is essential to bear these somewhat trite maxims in mind, on account of the fallacies, by aid of which it is sought to be maintained, that to reform the metallic currency of India, by substituting a gold for a silver one, involves breach of faith with those who have contracted obligations in the form afforded by the latter medium, or who happen to be holders of it.

The attempt is made to put out of sight the character and mechanical functions of a currency, the cost of the performance of these functions, the means of economising the cost under the admitted necessity of maintaining a due metallic reserve. The other character of that reserve is then alone considered, *viz.*, its character as a commodity. That character is, of course, disputed by no one, but it is but to state one side of the argument when it alone is brought forward, and the other character (*viz.*, of machinery) maintained at the cost of the community, is hidden from view.

In confirmation of what has been advanced, it may, I think, be held to have been shown by the practice of wealthy nations, that gold is a more convenient means of currency machinery than silver, when transactions are sufficiently numerous, and when the metallic means are sufficiently large, to render economy of portorage, wastage, and coinage, an element of calculation both to the State and to the individuals of whom the currency wants are concerned; England, France, and the United States are sufficient examples.

This being so, we must be convinced that as a matter of administration, on the score of economy, we should substitute a gold currency for a silver one for the accommodation of large transactions, or what may be in excess of the wants of very petty dealing, in countries which have reached the level of wealth and commercial activity attributable to such nations. As regards the application of a gold currency to India we have then to ask, is she entitled to be counted among such nations? Are her transactions of a character, are her needs on account of means of reserve and circulation, are the expenses of her Mints and of waste of capital sufficient to warrant a change similar to that which has been found in the United States, France, and Great Britain?

CHAPTER III.

The Standard of value.—Does a change of the Standard involve what is called a Breach of Faith, either with the Public creditor, or the Private one?

Before proceeding to consider the question of a change in what is called the "Standard of value," it may be well to come to an understanding on the exact meaning of the phrase. Confusion is apt to arise from the misappreciation of terms, and the public sometimes deceives itself, and is frightened accordingly by the misuse of words and phrases.

Such a confusion, perhaps, exists at present with regard to the phrase to which attention is invited. In some minds the so-called "standard of value" is mistaken either for value itself, or for the regulator of value. It is, in fact, a particular metal or commodity, in which the law of a given country declares that a currency shall be maintained.

That particular metal comes thus to be the expression, or means of the measure of value. This is a very different thing from being the measure itself, or from the commodity chosen as the standard of value having any intrinsic virtue, by which it can regulate value, or obtain value in any manner not common to other commodities.

We are taught that there is no real value but the cost of labour which is thrown into production,* transport, and delivery. However that labour may

* *Note.*—The cost of *production* as here used includes the rent of land. Waste land, on which labour has not been expended, returns no rent.

be paid for, whether by the commodities it produces, by other commodities, or by their representative in the form of money, on the cost of it depends the value of the commodity produced. It makes no difference whether the commodity be gold or silver, corn or oil, stone or timber. In the cost of labour must be included wages in every form, the expenditure of material which has been produced by previous labour, the preparation of the soil which is also the result of labour, at whatever former period it may have taken place, although, now it may be paid for under the denomination of rent.

Thus is it that by the cost of labour value is determined. It is measured by the exchange of one commodity against another, as we say that an ounce of gold is worth a ton of iron, the cost of producing the ounce of gold being the equivalent of the cost of producing the ton of iron, or the labour on account of the ounce of gold being the equivalent to the labour on account of the ton of iron.

It is evident that what is called the standard of value cannot affect the operations with respect to value, *viz.*, its creation by the application of human labour to matter, its determination according to the limits of the cost of the labour so applied, its measurement by the exchange of one commodity against another, except in so far as the commodity furnishing the standard appears as an article of trade, and not merely as the means of measurement.

We must therefore carefully distinguish between value with the foregoing conditions, and the legal notion conveyed in the term "standard of value," as applied to a currency, which declares what particular metal shall afford expression of the measure of value, for the convenience of the community. Otherwise we may be led into the mistake of forgetting that the metal which has been selected for a legal tender, has on that account a twofold character, as has been already illustrated, *viz.*, that it is the basis of a currency, or the material of an artificial machinery by which the rude operation of barter has been superseded, besides being also an exchangeable commodity of trade.

In the former character, a metal when made into coins, measures market value, in other words, affords the formula of price, whereas its own value as a commodity is determined by the cost of its production, as compared with other commodities.

If this distinction between the two characters of the metal, chosen by the community for the expression of value be not resolutely kept before us, the one, *viz.*, that of machinery, being artificial, and created for our own convenience, and the other, *viz.*, its own value as a commodity being natural, we may expect finally to fall into the error of attributing an occult virtue to a condition of currency, which is liable to change with the circumstances which may render it inconvenient.

This seems to be a not inaccurate description of what often takes place in the consideration of currency questions. It is not improbable that the phrase "standard of value" has more than once been the cause of the confusion and the errors of reasoning, which have arisen from them.

Objection is thus taken to a change from the legal standard of India (silver), to a gold one, because large liabilities have been contracted by the State under the former, and it is maintained that as a matter of good faith, as it is called, the public creditor might reasonably demur to being paid under any other.

If such reasoning were to be admitted, it can but be on the ground that silver is viewed as a commodity of trade only, and that its artificial character of being the material of the currency machinery, chosen either expressly or fortuitously according to a shifting expediency, is forgotten.

We must not however permit ourselves to forget the artificial condition. Having in the progress of civilization committed ourselves to a system of "Money," in supersession of one of barter, that is, having organized currency in various forms, having constructed a machinery by which the system of "Money" may be carried into execution, we cannot permit ourselves to revert to a system of barter, in the one item of silver, which is not tolerated in any other commodity. Otherwise we should destroy the very ground on which a currency rests, *viz.*, that the so-called standard of value is but the legal means of expressing how value is to be measured, and does not itself affect value.

In effecting a loan, the State borrows value as represented by a certain number of coins.

It does not borrow a special commodity of trade, or contract to return that same commodity, except in so far as it is the representative of value.

Thus the money it seeks represents a given value. It actually contracts for that value, and receives the money which represents it in the legal tender of the day. But it is because money is the representative of value, and that the legal tender is merely the form in which the money is clothed, that the State so receives the money in gold or silver, as the case may be.

The State does not, and cannot, bind itself never to change the character of its legal tender, or expression of measure, which it looks on as liable to change like other institutions. Its engagement deals with the value of the loan, and not with the special expression of the measure of value, which in equity cannot be a matter of consequence either to the lender or the borrower if the idea of currency be fairly maintained, and it be not confused with the notion of the natural character of the commodity, which has been chosen to afford a material of currency or national machinery of exchange. If value be left untouched by the change, if there be no sacrifice of convenience in the mode of repayment, either of principal or interest; if, on the contrary, the convenience of the community be increased by a change in the currency machinery, as caused by a superior portability and economy, it is indeed idle to maintain that there is even a semblance of breach of faith with the public creditor. For if we pay the public creditor the full intrinsic value of interest and principal of his loan whether in gold or silver, he has surely small ground of complaint. On the contrary, if there is a greater convenience to himself in the fact of receiving, carrying and guarding a portion of gold as compared with its equivalent in silver, he is clearly a gainer, if the former be substituted for the latter so far as a currency is concerned.

If we pay the public creditor 99 Rupees' worth of gold on account of his loan of 100 silver Rupees, we should defraud him, and he would be right to exclaim. But if we pay gold, which is actually equal in value to the hundred Rupees, there is no ground on which an objection can be raised, with regard to an obligation, created after a system of barter has given way before a system of money.

The same reasoning applies even more strongly to all obligations of domestic commerce, in which a currency comes into action, and the particular

legalised money represents value for the convenience of the community. Although some thinkers may have a difficulty in overcoming the exact terms of a State Loan, they cannot find any perplexity when they survey the transactions of commerce, it being understood and admitted by all, that the given coin or legal tender is simply a device by which the prices of commodities may be adjusted, with respect to their relative market values.

The market values are constantly changing, and they require according to circumstances more or less of the coin of legal tender in the form of price, but they cannot be affected one way or other by the character of the legal tender, excepting the consideration, that an economical improvement in the currency cannot but effect a certain reduction of charge to the community, as we see similar effects from improved machinery in other matters.

The very fact of the existence of a money system demonstrates that a merchant does not contract to receive his dues in one particular form, but in any form which may be most convenient to the community of which he forms a part, provided only that he does really obtain those dues; in other words, that the value to which he is entitled is not depreciated with respect to the actual present state of things.

The argument may therefore be summed up as follows:—

The State not being bound for ever to adhere to a given tender, it follows that loans made whether on account of the public or of individuals, and that all transactions of domestic commerce must follow the rule of any change in the mode of measuring monetary obligations, which may be demanded on account of the general convenience, provided that that change does not prejudice real value, that is, that the value of a new legal tender is, at the present, absolutely equal to that of the old one, or in other words, that the currency is not depreciated.

CHAPTER IV.

Further exposure of the fallacy contained in the Breach of faith argument, urged against the substitution of a Gold for a Silver Currency in India.

In considering the question of currency, it is hardly possible to exaggerate the importance of the conclusion which has been arrived at in the former Chapter, *viz.*, that the State or individual making a loan, in all cases, makes a contract for value, and not one affecting the particular commodity in which the legal tender happens fortuitously to exist.

The view stated in an opposite sense does in fact abolish the idea of a currency, and reduces us again to a state of barter. It ignores the representative character of money, and depends altogether on the character of the metal composing it, as a commodity of trade.

Thus to take Mr. Wilson's illustration* :—“ If two men enter into a contract, one to deliver and one to receive a given quantity of wheat at a distant day, however much wheat may have fallen in price in the meantime, the receiver has no right to complain, any more than the deliverer would have had it in the meantime risen as much in price. But if the person whose duty it was to deliver wheat, finding that it has risen much in price since the con-

* *Vide* minute on a Gold Currency by Mr. Wilson, dated December 25, 1859.

tract was made, sought to deliver barley or some other grain, which in the meantime had become relatively cheaper, the injustice of such an attempt would be plain. But it would be equally unjust, after a contract had been made in a silver standard, to change the standard to gold, because it was becoming more plentiful, and in relation to silver likely to become cheaper."

Now in the foregoing illustration, the theory of a currency is entirely put out of sight, and with that omission is coupled another, that the State in fact borrows value and not a particular commodity.

The illustration of the wheat is really beside the question altogether, because it refers only to a system of barter from which we have been removed by a system of money.

It is evident that when the contract to pay for the wheat was to be completed by offering an inferior description of grain, this could only take place by substituting the real equivalent in value, or a larger measure of the latter for the former.

In the same manner, if gold were now to be substituted for silver, it would be necessary to find the exact equivalent of the two metals as respects weight and fineness, and in discharging obligations, to see that no depreciation of value took place to the disadvantage of the creditor, according to the state of things as *now actually existing*.

But keeping in view the idea of a currency, that it is a machinery for circulation, and the statement of transactions and prices, there is no good reason why we should be irrevocably bound hereafter by an accidental form of the legal tender which happens to be in existence now. Otherwise this would convert the holders of silver, and those who were on the credit side of obligations contracted in a certain form, into future fortunate speculators in a commodity, whereas when their contracts were made, this idea did not enter into the conceptions either of the creditor or the debtor, the expression of the contract in the medium having been assumed solely as the readiest mode of stating the obligation, according to the law or custom of the community, and not for the purpose of driving a trade in the commodity which happens to have been fixed on as the means of measuring value.

If such reasoning as Mr. Wilson's were to be admitted, when the question of substituting a cheaper currency for a more expensive one is considered, such as silver for copper and gold for silver, the community would be absolutely precluded from effecting any improvement or economy in the working of that particular machinery, organised and maintained by the community at its own charges, for the performance of particular functions, which affect alike the State and the individual.

It would be to create a new vested right in consequence of an accident, to bar economy and the progress of development, in favour of certain portions of the public to the disadvantage of the public generally; in short, it would be to do what has been declared politically and socially wrong, and therefore unwise, in all the great changes which have been executed in England since the passing of the Reform Bill.

If we guard the public creditor and the private one up to the actual moment of making a change, if we guard him from any retrospective operation, we have done our duty towards him. But if we legislate so as to give the public creditor and the private one an advantage prospectively, in a sense which was intended neither by them nor the debtor, we then legislate in favour of the creditors to the inequitable disadvantage of the debtors.

Yet if we are satisfied that silver is likely to become hereafter relatively dearer, that is to say, that a change of value is likely to take place by which an ounce of silver will at some future time possibly be worth more than an ounce of silver now is, we are surely bound to consider that the public, including what is called the State, as well as individuals, is made up of two large classes, the creditors and the debtors. Bearing this in mind, and that all monetary obligations have been created for value, and not for the commodity accidentally affording the legal tender, we are further bound, according to every principle of equity, to consider the interests of the debtors hereafter to the full as much as those of the creditors. We have no more right to increase the value of the debt of the former hereafter, by declaring that, for all time, their debts shall be paid in coins, constantly gaining a higher value than that originally attributed to those coins, than we should have to declare arbitrarily at present, that the dues of creditors shall be discharged in a depreciated currency, with regard to the actual state of things.

It is believed that a judge in equity would not consider the possible prospective value of advantages, which might be speculatively entertained as an afterthought by one or two parties to a contract, provided that no reference had ever been made to such speculative advantages in the draft of the covenant binding the two parties.

The judge would consider what was the exact intention of the contracting parties at the time the contract was effected; he would insist on the contract being completed according to that intention, with regard to actually existing circumstances and the due interpretation of the latter as affected by the meaning of the covenant, and he would banish from his mind fortuitous conditions, not contemplated originally, and which as yet have no reality in practice.

If this view be correct, we may adopt it without danger in considering the obligations of the public and the private creditor and debtor, with respect to the breach of faith argument urged against a substitution of gold for silver.

The contract of the creditor being really made for value, must be completed in value as nearly as possible at the present time, but that value is not to be enhanced in the future, because the form in which the monetary obligation was contracted, is likely to become more costly than it is now or when the contract was made.

Yet if it be true that silver is to become more costly than it is at present, owing to the supply being unequal to the increased demand for it in China and India, we should really add to the debts of all debtors, whose debts have been contracted under the denomination of a silver legal tender, were we to declare that this prospective change in the value of silver is to be entirely ignored. Such a resolution would be a one-sided and therefore an unjust one in favour of creditors, whether those creditors are represented by the holders of the public debt, or by bankers and other private individuals.

On the assumption therefore, that the relative value is likely to be greatly raised, an assumption however which must be received with the utmost caution, it would seem that so far from there being a breach of faith in introducing a gold currency in the place of a silver one, we are absolutely bound to do so in justice and in good faith to the public at large, unless we would lay ourselves open to the charge of regulating our measures solely in favour of certain classes, *viz.*, creditors, public and private, who lent value under a silver denomination, and of the actual possessors of silver.

It is evident that these classes form but a part of the whole vast public of India.

When we reflect on the argument by which the introduction of paper money is justified and eulogised by all writers on political economy from Adam Smith to the authors of the present day, of whom no one has been more eloquent and more convincing than Mr. Wilson, it is difficult to repress the feelings of surprise caused by the argument of bad faith as adduced by him.

His argument and that of all others in favour of a paper currency is, that the introduction of convertible Bank Notes on proper terms, has the same effect as opening a gold mine in the country to the extent of the relief afforded by the Paper Currency.

Thus assuming that the Bank Note Currency of the Bank of England is 14 millions in excess of the coin kept in deposit, for the purpose of meeting the liability caused by the convertibility of the Notes, so much metal, *viz.*, 14 millions of bullion being released, the metal becomes proportionably cheaper, in other words money is cheaper, or the same amount of coined money will not purchase so many commodities as it would do were there no Bank Notes, and were 14 millions of bullion, now set free as a commodity to trade with, absorbed in the British circulation.

Consequently the issue of the Bank Notes is a direct disadvantage to the public creditor, who, having lent value, finds that value depreciated by the fact of money having been rendered cheaper by the artificial mine dug under his feet. Therefore his 3 per cent. of dividend will not purchase for him so many commodities, as it would have done, had there been no Bank Note issue.

The like consideration affects all private creditors on account of loans as well as all holders of the precious metal.

We have never heard of the British public creditor being permitted to cry out against breach of faith, because the value of the public debt has been diminished from time to time by the development and improvement of affairs, and the machinery used in conducting them, including Bank Note circulation.

Yet if the argument is worth anything, we must apply it to the introduction of a Bank Note circulation under the law, by which money is rendered cheaper, and the value originally given for public securities is depreciated to the full as much as to any other measure by which a similar result might be produced, such for instance as to a substitution in India of a gold for a silver currency, by which the artificially caused extraordinary demand for the latter metal might be checked.

But Mr. Wilson could see no evil in cheapening money, or interfering with the value given by the public creditors or retained in deposit by private holders, so long as his own nostrum of paper was only concerned. He desired, and it is believed rightly, to introduce paper throughout the length and breadth of India for the purpose of realising vast masses of hidden metal, and thereby cheapening money. Not a word in this about the public creditors or the duty of obligations. But there cannot be a doubt, that if he had been permitted to carry out his plans, admirable as they were, and if his expectations had been realised, his operations would have been attended with similar, but far more important results to the creditors in all sorts of obligations, public and private, than he attributes as likely to flow from a substitution of

gold for silver on account of the assumed eventual greater costliness of silver as compared with its present value.

The truth seems to be, that Mr. Wilson reasoned rightly when he was discoursing on the merits of his paper scheme, and that he was wrong when he talked about the change of gold for silver, as involving breach of faith.

He was, in the latter instance, seduced from his correct principles, by the mistake of attributing to a denomination of value the fact of value itself, and he substituted the idea of the character of a commodity for the idea of a currency.

In the former instance, *viz.*, of paper, in which he escaped the difficulty of the commodity, however convertible his paper might be, he remained true to the proper theory of a currency. This, as before shown, declares that currency is a machinery for the easier transaction of all the domestic operations of the State and of commerce. The State being thus responsible for working its machinery, of whatever character, as cheaply as possible, and with the greatest advantage and convenience to the community at large, is bound to use paper as much as it can be applied with advantage, just as it would turn to its own uses a gold or silver mine which might be found in land in which the State has a private property.

But, as already asserted, an economical reform of currency, by substituting gold for silver, which shall give the community the means of circulation and deposit at a cheaper rate than it has hitherto enjoyed, does actually afford also relief not so large, but similar in kind to that afforded by the introduction of the convertible Bank Note, if the latter operation is to present all the consequences promised by Mr. Wilson, an assumption, be it said, which is open to more than reasonable doubt in the case of India.

CHAPTER V.

The double "Standard of Value."—In practice a single standard alone exists.—Illustration afforded by France and the United States.

Having established the exact meaning and function of the "Standard of Value," it becomes necessary to pursue the inquiry, for the purpose of fixing the worth of that much vituperated thing a "double standard."

It is said that a country has a double standard, when legal tender is made of coins in two metals, silver and gold, in payment of taxes and debts, a given coin of the one (*viz.*, gold) being held legally to be the equivalent of a certain number of coins of the other *viz.*, silver.

Metallic money assumes two legal forms. Two metallic media of circulation appear, in either of which obligations may be discharged according to law, either wholly or in part.

At first sight, it might seem that, under such an arrangement, two means of measuring the value of commodities are then afforded, and that a conflict must ensue between the two to the disorganisation of trade. It is well to ask if this is so.

If the two metallic means of exchange were abstractions, like the signs for measuring length or weight, they might be jointly retained as mere means of measurement also. No practical inconvenience would result from the use of

such two means, but the labour of reducing the one to the other in calculation. As, for instance, it makes no difference, whether a piece of stuff is measured in French metres or English yards. Price follows on the actual length of the stuff, and not on the signs by which that length is represented. In the same manner, coins of different denomination, but of the same metal, are reduced from one to the other, according to the value they actually represent, without trenching on any other consideration. When we have to deal with things and get beyond the region of signs, the reality of value must be dealt with also. Thus silver and gold not being abstractions but exchangeable commodities, beside having whatever functions of representation and measurement which may be assigned to them, follow the laws of supply and demand like all other exchangeable commodities. This involves variation of relative value with regard to one another, according to the changing demand for them, variation in the means of supply, their conditions of bulk, the cost of transport, waste, and so forth. The relative mint value of the two metals may be struck by law with the greatest nicety, with regard to cost of production and delivery in the country where the mint is placed, but the vicissitudes of production, and the necessities of commerce, including currency, are ever causing slight variations between the market values of the two.

It then becomes a matter of calculation to creditors and debtors, as to which particular metal will best suit their respective purposes, when all such elements of value have been taken into consideration. It will not be forgotten, that in these elements are comprehended the considerations of economical machinery already illustrated, through which an actual economy of the national capital takes place. Others of a not dissimilar character will be adverted to hereafter.

When two metals are engaged in a currency, the principle displayed in Chapter II comes naturally into operation. That metal which asserts its superior cheapness as the material of machinery, for carrying on the transactions of exchange, excludes the other from circulation.

If a currency in one of the two metals can be carried on more cheaply than in the other, the former will be preferred, although the original cost in producing each of the two is the same.

This consideration affects all alike, both creditors and debtors, because the precious metals absorbed in a currency, are so much of the capital of a country, which is devoted without interest by the community, to save it from living in a state of barter.

The relative value of the two metals, taken as commodities and not as mere means of measurement, is carefully weighed, and according to the price of the metals as fixed by the value of other commodities, or we may say by the cost of production as involved in the labor expended for that purpose, will the choice be made by the payers of taxes and debts, as to which of the two metals shall be their medium of payment, or in which of the standards payment shall be made.

If it be cheaper to the community to maintain a currency in one metal than it is in another, when both have been launched on equal terms, this circumstance must re-act on them as commodities, and make the former the preferable means for the discharge of all obligations. It thus becomes established as the medium of exchange and deposit, whatever may be the law about the standard of value, or the double legal tender.

Thus when there is a so-called double standard of gold, or silver, or to speak more accurately, a double legal tender, if it be more profitable to the community at large to pay in gold, payments will certainly be made in it to the exclusion of silver, notwithstanding that the latter is equally a legal tender with the former. In such case, silver practically subsides from circulation, and sinks into the rank of a mere commodity of trade, with the exception of a certain small quantity, which executes very petty transactions, the place of silver in the circulation and in deposit being usurped by the conquering gold, exactly as horses are pushed out by steam, on the superior economy of the latter coming to be recognised as an agent of machinery.

On the other hand, if the price of gold were fixed at too low a rate relatively to silver, in the legal tender of the two metals, with regard to the amounts produced and consumed, that is to say, if the legal equivalent of silver were unequal to the market value gold possesses as a commodity, the superior cheapness of gold as a material of currency would be defeated by the consideration of the profits of trade.

Gold would then disappear and would subside from the circulation, because amid the freedom afforded by a double legal tender, silver would furnish the domestic money, and the gold merchant, being able to take advantage of the larger price gold would fetch abroad than at home, would export it all accordingly.

The nominal double legal tender would resolve itself virtually into the single one of silver, and the best metallic basis of currency for a rich country would be supplanted by the worst, in defiance of a proper economy of the capital of the community, because of an error in the calculation of the value of the metals.

This seems to have been actually what occurred in France, from 1801 to 1850, during which time the *market value* of gold was in excess of its *legal* equivalent in silver.

The variation in the value of silver since the gold discoveries, which is reckoned at 5 per cent., seems to have proximately established the values of the two metals, at the rates previously but erroneously attributed to them, when the equivalents of the two metals were legally fixed. The gold Napoleon ceased to be worth more of silver francs than it could claim by law in the form of money. It ceased to be able to buy more value in a foreign country than it could in its own, which had been the case till the gold discoveries, and the action of some other countries in this matter, to which allusion will hereafter be made. On this taking place, the superior economy of a currency of gold as compared with silver, at once made itself felt. Silver has, in consequence, in France, been driven out of the circulation and of deposit, and has been exported, the currency of the country and its reserves being maintained in gold, which has been coined in vast quantities.

The same results were seen in the United States of America. A very slight variation of the relative values of silver and gold was sufficient to cause the fullest weight to be attached to the superior economy of the latter (gold) as compared with the former (silver), for the performance of the work of currency and deposit. Gold was accordingly, as in France, coined in millions to meet the contingency, and silver was exported, that operation being mere favorable to the possessors of it, than to tender it in payment of debts. The latter (silver) sunk altogether to the rank of a simple commodity of

trade. No variation of prices took place in other commodities, no inconvenience was experienced in measuring values.

The public debts and all other obligations were not held to have been in any manner affected by the circumstances, the mint value of the new gold dollar having been made as nearly as possible equal to the original mint value of the silver one. The money made of gold represented value generally to the satisfaction of the public, according to the idea it had hitherto had of value in the silver form, and the gold money was cheaper to the public as such a representative, than its equivalent of silver could have been, on account of the much greater bulk, weight, waste, and expense of coinage of the latter.

Thus it is seen in practice, how other things being equal or nearly so, the question of tender, and therefore finally of standard, is determined by the necessity of following the simple rule of economy, which guides the conduct of all manufacturers and merchants in the transaction of their business. It is said that the question of standard is *finally resolved* by the instance afforded by the United States, to which I will now allude, though it may be necessary to dwell on it hereafter.

Thus by the law of 1849 in that country, a step forward was made towards the substitution of gold for silver by the introduction of golden dollars, a certain weight of coined gold being estimated and legally declared to be equal to the original silver dollar.

In 1853, although no legal objection was made to the discharge of the largest obligations in full weight dollars, the silver coinage required for daily petty transactions was by depreciation legally reduced to the rank of a token coinage. Payments of more than five dollars could not be enforced in the token coinage according to law. This change was made as a matter of convenience. The national reserves had come to consist almost entirely of gold.

Perhaps it may be well to mention that a token coin merely means a metallic Bank Note; that is to say, that a certain coin (say of silver) is authorised to stand for more than its weight of silver, and therefore to be a sign of value which it does not itself possess. This is the case with the shilling. To prevent traffic in token coins to the derangement of trade, a legal tender of shillings does not exceed 40. Beyond that sum payment must be legally made in gold in England.

In the United States so much of the old full weight silver coin had been absorbed as a commodity of trade, as to put the community to inconvenience in the execution of petty daily transactions.

The substitution of gold for silver on account of the larger functions having become complete, the necessity of consulting daily convenience was felt and acted on in the matter of silver coins of small value, as had been previously done in Great Britain.

It was no longer required for the national convenience, that the silver coins current for such purposes should possess the intrinsic value of which they were the signs. The function of representation of value in the national reserves having been finally assumed by gold, it was evidently to the interest both of the State and of the individual, that no more of silver should be absorbed in daily petty commerce than was absolutely indispensable.

Consequently in 1853, the legal tender of the United States was practically reduced to a single one, the double standard of silver and gold being thus brought down to a single one of gold. This does not seem to

have been absolutely stated in words. If any one had been unwise enough after that date to present his full weight dollars in payment of large obligations instead of exporting them, there was nothing in law to prevent him.

With the two examples of France and the United States before us, we can thus hardly resist the conclusion, that as a matter of pure economical science, a battle about a double standard is a somewhat unnecessary contest. For whatever we may proclaim regarding a legal tender of two metals in discharge of obligations, the facts of payment and deposit settle on one of the metals, to the exclusion of the other from the currency. If two metals be declared to be legal tenders, but one will be tendered practically, the other gradually subsiding from circulation, being absorbed in domestic manufacture, hoarded, or exported, as may be found expedient by individual interests.

With regard to what may be further expected, or what may actually take place under the double standard, or when a twofold metallic legal tender exists, we must again advert to the fact of the exchangeable value of the two metals.

Thus it is absolutely necessary in the interests of commerce, and of the community, that there should be but one measure of value, whether or not there be a double metallic legal tender. This is so fully recognised in practice both by Governments and subjects, that we find in the countries where such double tender exists by law, that but one denomination of coin, of one metal, is admitted into the calculations of value. This is seen in the transactions of trade and of the Revenue. The nominal value of the particular coin remains as a fixed quantity, and is the recognised measure of value, in the face of the legal twofold metallic tender.

All accounts are kept in it, whether of the public debt or of private obligations. Thus in France the Silver Franc has retained the denomination of the measure of value, although, as abovementioned, the legal tender admits of silver and gold, and that the gold has practically driven the silver out of circulation.

The price of the gold is thus determined by the value borne by the silver, at the time that gold asserted itself as the best medium of circulation. All transactions are still measured under the old silver form, though the payments are actually made, and deposits are maintained in the gold equivalent.

The interest of the public debt is paid in gold as being the equivalent of the silver which is due according to the actual terms in which the contracts for the loans were actually conceived.

Thus it may be said, that any possible or prospective change in the value of silver is banished from view, and that the value of silver only is considered by the legislature and the community, as it stood at the date when gold was poured over the country in supersession of the old silver coinage.

The French have not as yet advanced beyond this point. They have not as yet legalised and fixed what has actually occurred, in accordance with the principles which have been stated. We remark a curious phenomenon: the titular standard and measure of value have alike maintained their position in silver, notwithstanding that the money of the country has for the most part become gold. In this manner, have discussions with regard to the Public debt and the breach of faith argument been successfully disposed of.

Names have been retained, while legal equivalents declared with the utmost nicety of calculation, have changed the face of the money or

representative of value throughout France, without in any way affecting prices, obligations, or interests, of any kind whatsoever. Consequently it may be said that the real Franc of the present day is the golden equivalent of the silver Franc of the year 1850, just as we have seen that, in the United States the golden dollar, in which all the reserves and currency are maintained, is the equivalent of the silver dollar of 1849. The comfort of the communities of both countries, and the economy of their capital, have alike benefited by the reform operated, according to their progress and increasing wants.

But as already said, the United States have proceeded one step further than the French, and by the introduction of a token coinage for sums less than a dollar, have fixed their gold currency by law.

It is probable that the gold currency of France is practically as much fixed as that of the States, but it would be well if she also were to have recourse to a token silver coinage, according to the example set by ourselves, and followed by the United States.

We may fairly say, that both France and the United States have exemplified in practice what has been maintained with respect to value, and the monetary obligations consequent on a particular form of metallic currency, the said obligations being contracted for value, and not for the metal or commodity in which the currency is cast.

CHAPTER VI.

Effect of the Demonetisation of Gold subsequent to the Gold discoveries.—Breach of Faith towards those on the debit side of obligations thereby involved.

It is necessary once more to refer to a definition.

The money absorbed in a currency, whether it be actually floating in the course of daily exchange, or in deposit for the purpose of insuring the convertibility of Bank Notes, and of meeting the balance of trade, is so much of the capital of a country which a community estranges from the ordinary processes and profits of manufacture and commerce, for the easier transaction of its business.

This absorption of capital takes place in a special form, *viz.*, in a certain metal, or in metals which have been produced or imported in exchange for other commodities.

The absorption of a particular metal for the special purpose of money, in other words, of metallic currencies in the several communities of which the world is made up, causes a larger demand for the metal or metals generally, than would be the case, if these metals were not so used, that is to say, if they were required only for the purposes of manufacture, jewellery, and so forth.

Many hundred millions of gold and silver are absorbed in the function of representing value, which would be available for other purposes, if it were not more convenient to retain them for that particular one.

The metals are therefore produced in great quantities, to meet the demand on account of this particular function of representing value, which is known as metallic currency, the metals employed in it being intrinsically worth the value they represent in the form of coins.

The further conclusion is then, that a much larger production of the metals takes place on account of the several currencies of the world, than would occur if those currencies did not exist.

Consequently, as to make the money of a community of particular metals causes a greater demand for them, and therefore increased production, so, suddenly and arbitrarily to drive one metal away from the function, for which amongst others it was largely produced, cannot fail to affect its value, as shown in market price, till the absorption and waste of manufactures have again given a stimulus to the production of it.

Further, this operation on a metal hitherto used in a currency, called demonetisation, in favour of another metal, which is retained, is liable to render the former cheaper and the latter dearer.

Such a result may be counterbalanced by other causes, but in the absence of such other disturbing causes, it could not fail to follow.

The ultimate practical consequence of sudden demonetisation of one of such metals, is that owing to the cheapening of the demonetised metal, it leaves the country where it has been so cheapened, or it is hidden away, in the hope of better times coming for it hereafter.

The production and importation on account of that particular country ceases, except for manufacturing purposes.

If not compensated for by the opposing action of other countries, we can conceive without fear of error, that production of the demonetised metal would altogether cease, till the absorption and disappearance has occurred through manufacture and waste, till the reserves previously held had been finally exhausted in it.

This having taken place, the value of such a metal would again rise to what it about formerly possessed, relatively to other commodities with regard to the cost of the labour expended in its production. We have seen that in France and in the United States, silver has been *gradually* but practically demonetised in recent times without shock to existing interests, as it had been previously in England.

It is unnecessary to remind the reader of the extraordinary wealth of those countries and of the productive power of their respective communities, as compared with all other countries and communities in the world. The trade and the production of them has been increasing at an accelerated ratio since the termination of the great wars in 1815. Leaving England out of the question, as having effected her currency reform before the gold discoveries, we may content ourselves for the present with the consideration of France and the States, with regard to the subject before us.

Their enormous wealth and trading power demand a great mass of metallic currency and reserves, and the demand is ever increasing with the progress of their development, the daily augmenting multiplicity of the engagements and obligations they have to meet.

For as the trade of a country and its capacity for production increase, so also does its demand for metallic reserves.

The reserves of France and of the United States must, as a matter of course, follow such a very simple and obvious rule, and we have evidence of it in the enormous gold coinage of both countries.

The latter fact shows besides, that their reserves are now held in gold instead of in silver, or part silver and part gold, as in former times. In these circumstances, and in the fact of the increasing wealth of Great Britain, France, and the United States, we find a chief reason, why the value of gold has been but little affected by the gold discoveries, and the extraordinary production of gold, which has taken place in recent years as compared with times antecedent.

If, as was done in some other countries, gold had been artificially demonetised by France and the United States, subsequently to the gold discoveries, the result expected with much alarm by some economists and Governments would probably have ensued. It is certain that, according to the amount now producible in the known mines, silver could not have continued to supply the currency and reserves of those countries amid their great development, without an extraordinary rise in its value, as compared with gold and other commodities.

Had then those countries been as ill-advised as some others, it is really true that silver might possibly have taken the place of gold, and all loans and obligations, including public debts, nominally payable in silver, would in such case have been doubled, perhaps, trebled, in value.

It perhaps may be said then, that the course pursued by France and the United States, and by England, in the matter of metallic currency, has saved the world from a great revolution in the relative value of the precious metals, and from the evils which could not fail to have followed on such a revolution.

On the other hand, the conduct of other Governments, which acted under feelings of alarm, and from incapacity to grasp the reality of what they were about, was exactly calculated to cause the disaster, which was the object of their fears.

In the countries under such other Governments, the fact was overlooked that to demonetise gold, which had hitherto been used in aid of a silver currency, was to add to the effects of the change caused by the gold discoveries: in the absence of compensating foreign causes, to degrade the value of gold by arbitrarily reducing that demand for it, which had hitherto had the sanction of law and custom: to deprive it of the principal functions on account of which heretofore it had been largely produced, *viz.*, the functions of currency and of deposit, of forming part of the national reserve, whether in the public exchequer, or in individual hoards.

Thus was gold reduced in those countries hastily and arbitrarily to the rank of a mere commodity of trade and manufacture, instead of being permitted to be the agent of vast operations involved in the character of being a legalised representative of value.

In addition, therefore, to the mines discovered in California and Australia, gold mines were artificially created by the inconsiderate conduct of the Governments alluded to. To the best of their ability, these Governments poured forth on the world the gold hitherto absorbed in their metallic currencies, or condemned it to idleness, when they degraded it from use in their domestic exchange. That took place which has been stated as certain to occur in the absence of disturbing causes. Gold was relatively cheapened as regards silver, its price being determined by the artificial value communicated to the latter.

For the value of silver could not but be proportionally raised, with regard to the amount of that metal existing and annually produced in the world being

called on to perform the great function of money, or of representative of value, which had hitherto been divided between silver and gold.

The consequence was, that in all the countries adopting this course a positive injury was done to the community generally, and to all debtors, because the repayment of obligations from the date of the legality of the gold tender, being denied, had to take place in silver, the value of which had been thus artificially and arbitrarily raised, that being subsequent to the date on which the contract of the obligations had been made.

This injury was to the detriment of the State in its character of debtor as it was to all other debtors.

It was a successful speculation in favour of the fundholder and of all creditors. It was also a successful speculation in favour of all those who happened to possess hoards of silver metal, while it was the contrary to the holders of gold, it being understood that disturbing causes of the counter operations of wiser governments are put on one side, while the question and its conditions are stated with purity and absoluteness.

Under such circumstances, there is small room for surprise that silver should rise 5 per cent. in value, which may be fairly attributed to the conduct just illustrated, and not to the new production of gold.

We can only be thankful that it did not rise still more, a circumstance which, as above shown, can only be accounted for by the wise conduct of the three most wealthy and actively producing communities in the world, those of France, the United States, and Great Britain, and by the fortunate era of peaceful progress and of national development in which that conduct took place.

The progress and the development of these countries were sufficient to prevent any but slender change in nominal value on account of the increased production of gold, and their conduct was almost able to obstruct the mischievous regulations of other Governments, which tended directly to raise the value of every debt, public and private.

We cannot then resist the conclusion that the conduct of the Governments of Holland, Belgium, and India in this matter, which has been mentioned in terms of commendation, as being an useful experience by a great authority (the late Mr. Wilson), it being called by him an act of great caution, was in fact one of inconceivable rashness.

He says that "before the gold discoveries, silver was rarely so low as 4*s.* 11*d.* the ounce; since, it has seldom reached, or at least exceeded, 5*s.* 2*d.* the ounce, but under the apprehension of a fall, the Government of Holland, proverbial for its caution, was the first to take alarm, and having then a circulation of both gold coins and silver coins, which were a legal tender at a fixed relation to each other, they demonetised the gold coin, leaving silver, the ancient standard, the only legal tender."

Thus Holland, it appears, merely *under an apprehension* of a fall, and not because a fall in the value of gold had occurred, was the first to set the fatal example. Holland was the first to create an artificial gold mine to aid the new Californian natural mines, in changing the relative values of gold and silver, in fact, to cause the very evil it professed to dread, and doubtless did dread.

The example was followed by another small but very rich country (Belgium). India under the British Government did the like, and gold, which

from time immemorial had been coined for circulation and reserve by all the Governments which preceded ours, was made suddenly to cease to form part of the British Indian currency.

The inevitable consequence was soon seen. The price of silver being thus unnaturally forced in other countries, while it remained at its natural value in France, the United States, and Great Britain, according to the commercial law which enjoins all traders to sell things in the dearest market, and to buy them in the cheapest, silver forthwith began to flow to the market where it could fetch the highest price.

I would ask leave, in considering this important matter, notwithstanding the fear of repetition, to refer again to the points involved in the value of obligations being increased, by the sudden and arbitrary demonetisation of gold in the several countries where it occurred.

I would also request that the facts of value, as applied to obligations (public and private), may be borne in mind, the deduction from them being in the present instance, that to demonetise gold arbitrarily and summarily, to order that silver only shall perform the functions of metallic money, is to interfere with value as it has been hitherto determined in respect of silver, to give a high price artificially to silver, and then to rule that that high price shall stand in the place of intrinsic value, as measured by the cost of production. Consequently an *artificial high price* replaces the natural price at which silver was estimated, when it was selected by contracting parties to represent value in mutual obligations between debtor and creditor, it being the fact that the particular metal was only the representative of value, and was not itself a commodity of trade, in which either party was driving a speculation.

These considerations are peculiarly important when we consider the public debts of countries, money obligations connected with the mortgage of land, etc., etc.

There cannot be a doubt that in all the countries in which gold was arbitrarily demonetised, the public debt in those countries having been contracted under the denomination of one of the forms of legal tender, while two were admitted in the currency, the operation took place for the benefit of the holders and the detriment of the tax-paying public, in exact proportion to the rise in the value of silver, *viz.*, about 5 per cent.

If they sold 100 Rupees of their stock, they received value which was equal to five Rupees more than they had originally lent.

Their dividends from henceforth were 5 per cent. more valuable than they had contracted to receive, although the nominal interest was the same.

All mortgagees, all holders of policies in life insurance, in short, all creditors in monetary obligations made antecedent to the demonetisation, received a like benefit, to the *positive detriment* of the debtors.

It is really pleasant to observe that, with regard to the breach of faith argument, that which has been *most erroneously* used against a substitution of gold for silver, might have been, indeed ought to have been, if the nature of value is fairly considered, urged with firm and honest purpose against the operation called a measure of caution by Mr. Wilson.

It is certainly true that the fundholders, the creditors, and the holders of silver of the time in the countries referred to, exercised the caution which makes laws and regulations to enhance the value of existing property, in

other words, which legislates in a purely selfish interest to the detriment of the public at large which pays taxes, and of the huge class of debtors, including what is called the State.

CHAPTER VII.

Justice can alone be done to the community of India by the introduction of a gold legal tender, and the consequent prevention of rise in the value of silver.—Effect of the rise in value of Silver on the very poor. Instance afforded by the incidence of the salt Taxes.—Loss caused to India by the compulsory importation of Silver.

Amongst other arguments which have been used against the introduction of the gold legal tender, we have been told that a great injustice amounting to robbery would be inflicted by it on the ryot, or cultivator. It is asserted by some that the proposed measure is meant to add to his difficulties, and it has been dubbed confiscation on such an account.

The assertion is a seducing one to some minds. It is indeed but a re-statement of the breach of faith argument with a dash of sentimentalism infused, for the purpose of attracting the support of the British philanthropist.

It may be fairly said that the truth is exactly opposed to the assertion, that justice can only be done to the ryot, and to those who are lower down in the social scale than he is, by reverting to a gold currency.

It has been shown that, putting disturbing causes aside, an arbitrary and absolute demonetisation of gold must of necessity raise the value of silver. Consequently such an operation is directly disadvantageous to all debtors whose obligations were contracted prior to it.

Such demonetisation is also disadvantageous to all who are bound to make payments of given sums at regulated periods according to ancient contracts. For the sake of argument we must assume that the rise in the value of silver with respect to that of gold is the same in India as it is declared in the markets of Europe, although that perhaps is hardly so. Thus, if silver is now worth 5s. 2d. an ounce instead of 4s. 11d., as was the case in Europe in former days before the gold discoveries, and before gold was absolutely demonetised in certain countries, every obligation contracted under the national denomination of value, *viz.*, the Rupee, before the changes adverted to, is practically worth about 3d. more in five shillings, or something like 5 per cent., than it would have been had no such changes taken place.

Consequently, all leases, mortgages and public debts impose this disadvantage on those who are on the debit side of the contracts made prior to the operation referred to. Such parties counteracting causes being put on one side, of which notice will be taken hereafter as affecting India—are actually now paying about 5 per cent. more of value than they contracted to pay, because they are compelled arbitrarily to pay their dues in a metal, the market value or selling price of which has been artificially raised 5 per cent. by the absolute demonetisation of gold.*

Let us examine how this circumstance acts on the ryots of India.

* Be it said in passing, that for the sake of the argument I am obliged to assume that the popular demonetisation of gold has been really as effective in India as the laws and the regulations would have made it. It will be seen in a following Chapter that this is by no means the case, and that there is consequently reason to believe, that India has in a great measure escaped the evils of that demonetisation, as affecting the relative values of silver and gold.

In the first place, the land revenues of India being in the nature of rent, the State landlord receives 5 per cent. more of value than he intended when he contracted for the rent of his lands, or in other words settled the assessment of the land revenue.

In Bengal, this settlement, made in the last century, was a permanent one. Therefore in Bengal, the essence of a permanent agreement has been invalidated by the fact of a circuitous arrangement, one altogether out of the minds of the contractors on both sides to the settlement when the settlement was made, that is to say, other disturbing causes being put on one side, the permanent landholders of Bengal now pay 5 per cent. more of value for their land than it was originally intended by them and Lord Cornwallis that they should pay, or than they did pay for more than half a century after that settlement was made.

In the North-West Provinces and in Bombay the settlements are not permanent, but run for thirty years.

In the North-West Provinces the settlements were generally effected after the Act of 1835,* but before the treasuries were ordered not to receive gold in payment of revenues.

The rents were therefore fixed in a great many instances before the value of silver could have been affected by the gold discoveries, and its price raised by them. Consequently, until the settlement comes to a close, the older lessees or payers of revenue under the thirty years' settlement of the North-West Provinces, are affected similarly to the permanent tenant of Bengal. The land settlement of Bombay, which is still proceeding, seems not to have been commenced at so early a date, but the argument must also partially apply to that Presidency.

It is obvious, therefore, that, so far as rent is concerned, all obligations contracted between the State landlord on the one side and the tenant on the other, which are older than twenty years, are discharged according to a notion of the value of the rupee, which was not intended by either of the contracting parties, and which is to the direct advantage of the tenants. Let it be remembered that these tenants are the classes on whom most of the direct taxation of India is made to fall.†

Whatever may be our opinion of the policy of the immemorial system of State landlordism, for raising the funds required for the functions of Government and administration in India, it is clearly wrong and unjust to add to the burthen indirectly. Yet this is exactly what has been done by the course pursued with regard to gold and silver in the currency of the country, in disregarding the fact that a certain idea of value was originally contemplated by the lessors and the lessees, and not the actual commodity or metal; in other words, the special form of money, in which that idea was for the time nominally represented in contracts.

In addition to the difficulty stated with regard to the contract made with the State landlord, we have the further facts of the indebtedness of a large

* Act XVII of 1835. This Act determines the silver and gold coinage, and establishes equivalents of respective values. It also enacts that gold shall not be a legal tender.

† This is not said in depreciation of the Indian system of land revenue, which I believe to be a most perfect engine of raising money for State purposes, when it comes down from ancient times, as is the case in India, and is not arbitrarily applied as a novelty, and therefore a tax. In the former it is strictly rent, in the latter it is an impost which may or may not be equitable, with regard to the burthens placed on the classes connected with the land.

proportion of the Indian land owners and ryots, under whatever name they may exist, towards bankers and others. This state of indebtedness is not only general, but is also in a vast number of instances of very old standing. It has come down from generation to generation, and is transmitted from father to son, the security being in the form of mortgage.

Here again the mortgagee profits, as it has been shown that the State landlord profits by the arbitrary elevation given to the market price of silver, by the demonetisation of the gold.

Again has the burthen of the indebted ryots and of the indebted possessors of land been artificially and circuitously raised.

It may, therefore, be said that in the matter of change of value in consequence of the absolute demonetisation of gold, the great landed interest represented by the ryots or tenants under other names, and by the indebted freeholders of India, stand with regard to the breach of faith argument in the same position as the State, when the latter is viewed as a debtor on account of such portion of State debt, as is more than twenty years old.

In the character of a debtor, the State is unfairly prejudiced.

In its character of a landlord it obtains an unfair advantage in Bengal with regard to the permanent settlement, and in the North-West Provinces with respect to the thirty years' settlement inaugurated by the late Mr. Thomason.

If even there had been no counteracting causes to bar the effect of the legal demonetisation of gold, it is possible, perhaps indeed very probable, therefore, that so far as the Public purse, the Exchequer, is concerned, one of the circumstances neutralises the others.

In like manner, assuming the rise of the value of silver to be a fact for the sake of the argument, it is by no means improbable that the tenants or ryots who are wealthy and follow the national instinct of boarding, have found a compensation for the increased value of the rents they pay, in the increased value of their savings. But the indigent ryots who were not what is called "before the world" when the value of silver was raised, who have to pay the interest of mortgages contracted by their fathers or by themselves, have no such compensation wherewith to mitigate the additional burthen inflicted on them by the artificially effected increase in the market value of silver.

It is therefore evident that any measure which tends to arrest the rise in the price of silver, to cause the value of contracts to be appreciated, as apart from the arbitrary augmentation of price of a particular metal which happens to be the legal tender of the day, cannot but be an unmixed advantage to the vast tenant interest of India, from which come the great bulk of the revenue of the country in the form of a rent paid to the State landlord.

There are other numerous classes besides the ryot and the indebted landowner, which have a right to demand that the value of the silver rupee shall not be artificially raised.

It is far from my wish to reflect on the financial system of India. The improvements which have been made during the last half century, the abolition of transit duties, the reduction of the rates of land assessment, the abatement of customs duty on articles of first necessity, are all evidence of the spirit by which the Government of India is actuated and of the right course

in which it is moving. Difficulties present themselves with regard to raising the necessary revenue which impede reforms otherwise desirable.

It is on such account, we may presume, that the salt taxes which are condemned on principle by the most enlightened Governments of Europe, still find a place among the imposts on which reliance is placed by the Indian administration. The effect of the salt tax on the very poor is, as it is well known, of a most serious character. Thus, it is not too much to say, that people of this class, in order to support life, to prevent themselves from being slowly poisoned by the scanty farinaceous food on which they subsist, must spend a large portion of their incomes on the purchase of salt.

The salt must be paid for in the legal tender of the day or in silver, a great part of the price of the salt being a direct tax to the State. The poor man like the rich one cannot escape a physical law. Although his income may only be from 3 to 4 Rupees,* or 6 to 8 shillings a month, his health requires that he should consume as much salt as the man of large fortune.

It must therefore be admitted, that although the salt revenues may be levied either in the form of Excise or of Customs, they do in effect constitute a Poll tax on every man, woman, and child in the country, simply because salt is a necessary of life.

It is then evident that any measure which conduces to raise the value of silver artificially in which, as at present ruled, taxes can alone be paid, forms an addition to the Poll tax which is levied on the enormous masses of the Indian population.

Perhaps it will be said, that all disturbing causes being put on one side silver being assumed to rise in value as is feared, the rupee received by the very poor man as wages will rise proportionately in value with that portion of the rupee paid away by him as a tax on salt to the State. This is true, but we may be quite sure that if the value of silver with regard to all other commodities were to rise, the actual rate of wages as represented by the number of rupees paid for labour, would sink as the value of silver rose.

It is not perhaps likely that such a consideration would influence the scale of the salt taxes, unless it had been determined to revise the financial system and to abolish salt duties.

On the contrary, we know that actually while the price of silver has been affected in European markets by the demand of importation to India, it being believed by many, however contrary it may be to fact, that the value of silver in India was also rising, the tax on salt which according to the legal tender of the day must be paid in silver, has been raised.

I must again guard myself and bring to mind that for the sake of the argument, the facts of silver and gold only have been considered, the effect on the former by the absolute demonetisation of the latter, being alone taken into account in answer to objections offered to the proposed reform. It will be seen, as the inquiry is prosecuted, that both metals, gold and silver alike, have of late years sunk in value in India about *pari passu*. Consequently, both the payer of rent and the payer of salt taxes are on this account better off than they used to be, with the exception of persons living on very small fixed incomes—a considerable class in the town and village communities of India.

* Such a low rate of wages is now much less common than it used to be.

Before quitting the subject of justice to the community as involved in the proposed reform, it is well to advert to that which is so clearly stated in the memorial of the Chamber of Commerce, *viz.*, "that while silver must be transported to a great distance, and reaches India burdened with heavy charges, gold may be cheaply procured from neighbouring countries."

From this follows a prejudice to India, because silver being burdened with such heavy charges, cannot be re-exported without loss, much of its reproductive power being thus lost to India.

It is further pointed out in the same memorial, that India, instead of being the last recipient and the absorber of silver, would become the first importer and distributor of gold, if her currency were put on a reasonable footing.

With regard to the facts of India being a producer of manufactures as well as of raw commodities, both the former and the latter being available for direct export to the gold-producing countries, it seems clear that a positive injustice is done to the Indian community by permitting a state of things to exist which unfavourably affects the value of gold in India, and compels a large importation of silver when gold would otherwise be preferred.

There can be no good reason to compel the precious metals to make the journey from Australia round by London to India, instead of coming direct to the latter country. Yet that is what to a certain extent necessarily takes place, and which throws heavy charges on the metal ordained as a legal tender, *viz.*, silver. The gold of Australia must go to London to be exchanged for silver, which is then sent out to India after being bought at an artificially high price in Europe and the United States. The European markets are the middlemen, who obtain their profits on the silver sent to India to restore the balance of trade.

Those profits are thus a partial deduction from the profits which would otherwise accrue to India herself. It is evident that this is neither more nor less than a grievance, seeing that the proceeding is arbitrary and artificial, and not demanded by the natural wants of commerce.

It may be argued that the present extraordinary state of things cannot last, and that India will cease to be such an importer of the precious metals as she now is, when the supplies of cotton from different parts of the world shall have become equal to the demands of the several markets of Europe and America.

This may be true to a certain extent; but so long as India is a great producer of raw commodities and a considerable manufacturer, and until the masses of her people have so changed their habits as to become great consumers of European productions, we must understand that the balance of trade will continue to require a large annual importation of the precious metals. Let it be remembered that her powers of production, her capacity for manufacture, and her determination to avail herself of the profits of foreign commerce, are daily increasing, while the change of habits and customs, involving a demand for European commodities to which the Indian mind is not yet habituated, cannot but be a matter of very slow growth.

I have heard it said in answer to this argument, that the trade of India with Australia being as yet slender, to import gold direct from the latter to the former in large quantities is at present impossible. We may, however, believe, that mercantile ingenuity would overcome any difficulty of execution, which stood in the way of buying gold cheap at the mouth of the mines,

instead of when it is burthened with the cost of freight by a journey to London.

Thus if A, an Indian merchant, exports his cotton to B in England, B may send cloth to C in Australia and make his payment to A in India in the form of bills drawn on C in Australia, which would be discharged in gold. That gold is I believe worth about £3 15s. in Australia instead of £3 17s. 10d. the price of the Bank of England, to which it rises in the European markets in consequence of freight, etc.

CHAPTER VIII.

The Introduction of a Gold Currency into India is urgently required as a matter of convenience and economy to the people at large.—A Paper Currency inoperative, owing to social causes.—The introduction of a Gold Currency demanded by the same social causes.

We now proceed to other considerations.

It is believed that the justice of any measure, including the gradual and partial demonetisation of silver, which may prevent the further upward move of the market value of silver, or its selling price, has been fully proved.

We have now then to discuss those other parts of the question which have been already generally stated in the second Chapter of this treatise, *viz.*, the convenience to the people, the superior economy proposed by an arrangement which shall include gold in the currency, as compared to the charges and want of comfort to which they are at present exposed.

With regard to mint operations, to economy of manufacture and administration, and to the saving of waste of material, and therefore of the national capital, by substituting generally as means of circulation and deposit, the more costly metal, gold, for the cheaper one, silver, it is unnecessary to recapitulate the arguments by which this part of the subject has been already illustrated.*

But when we come to consider the questions of portorage of coin, and of preserving in security the savings of the poor and of large sections of those elevated above poverty, we touch a subject intimately connected with the social habits, and the imperfect civilisation of the people.

Let us reflect on the fact that the populations of India have the most simple and gregarious habits. There are tens of millions of the people who carry their little store of wealth habitually with them on their persons, or bury it in the corners of their huts. To perceive the actual presence of their hardly saved rupees, or to conceal them away from the eyes of all other men, is their only notion of safety for their slender property.

For them, therefore, it is difficult to over-estimate the advantage of having the intrinsic value of their savings in the smallest and most portable form. The intensity of the want of portability of money comes before us in various ways. It is one of the conditions of what may be called the extreme promiscuity of existence seen in Oriental Bazaars, in the town and village life of India, as compared with the habits of European communities.

* *Vide Supra* Chapter II.

The importance of portability of the precious metals, as a means of being constantly on the watch to preserve the reserve wealth of the family, is observed in the addiction to personal ornaments of silver and gold.

The reserve capital of a family is carried for safety on the persons of the women in the form of gold or silver bangles, as much as for ornament.

It is but an instance of the habit of thought, of the desire, amounting to a craving to intensify the feeling of security, which we see in Oriental Potentates, who invariably invest large portions of their surplus wealth in precious stones and durable valuables.

Thus every man, who is just raised above mendicancy, carries his little store of money on his person, or he buries it. The waistband of almost every such man contains a few rupees or a coin or two of gold, which represent all his wealth, except his wife's bangles and his tools.

We saw the exaggeration of the notion of the value of portability during the recent rebellion in 1857-58, when the price of gold rose 50 per cent. in the Bazars of the North-West, solely because of that quality. The Gold Mohur which used generally to be exchanged by the money changers for 16 rupees, its mint price being 15 rupees, actually rose to 24 rupees, which were readily given for it.

I am particular in noting these circumstances, because if fairly interpreted, they display a far more serious necessity for the introduction of a Gold Currency among the population of India as a matter of convenience than perhaps may be the case in more advanced communities. This has probably always been so, but it seems particularly desirable now that wealth is beginning to spread among the people in a manner which would have been believed to be impossible a few years ago.

In America and in Europe the great reserves of precious metals are for the most part secured in the strong rooms of banks, the value being represented by convertible paper. The promise to pay satisfies every one. The reserves being known to exist, and to be forthcoming to redeem the promise, gold and silver are but little seen in the course of business, except in the petty daily commerce of life.

The old habits of feudal Europe have well nigh died out. Secret hoarding, the carrying about the little store of wealth on the person, and the use of the hearthstone, so common in many countries till quite a recent date, the resources of the weak and of the oppressed, seem to be almost forgotten.

Money is felt to be safer in a Commercial or a Savings' Bank. The people are satisfied to let their money "breed" if possible, and faith in obligations such as bank notes, or bank receipts, has entirely replaced the want of confidence, which among ignorant and backward populations, refuses to be satisfied except by the daily evidence of the senses.

But Oriental populations, if we except the inhabitants of a few large sea-board cities, are generally a long way from such a result of progress in social polity. They are not practically educated to the point of appreciating the convertibility of paper and the advantage of popular banking. The latter in their eyes, is connected with their natural enemy the usurer. The former must remain for a long time an object of distrust.

The people hug the idea of intrinsic value in coins of the precious metals which will last for ever, which will be again found, if war sweep over the country and destroy all that is above ground.

It will be understood that they would not care to bury the bank note in a corner of the hut. They would know that the paper would rot, be destroyed by damp, or be eaten by insects.

They would further be always oppressed with the idea that it might lose in value, or become inconvertible hereafter, in the midst of political changes,—a by no means unreasonable suspicion.

To the very poor the bank note would also present serious objections on account of its easy destructibility. It must wear out in the waistband. Its want of weight, its very flimsiness, preclude the idea of its general use by the very poor, who like to assure themselves by constant touch, that their little reserve store of wealth is actually in its usual place on their persons.

There cannot be a doubt that such people would long to change the bank note, when paid to them in satisfaction of their dues. This they would undoubtedly do even at considerable loss, rather than continue to trust in what to them is a doubtful representative of value. Such facts daily pass before our eyes, even in great marts, where other things might have been expected.

It may further be said, that of all people in the world, the population of India carries practically and keenly into execution the principle, that the money actually current is a commodity which must possess the intrinsic value it assumes to represent.

To them bangles are convertible into rupees and *vice versa*.

“ The gowd’s the gowd for a’ that. ”

Thus in some Native States, the people refuse in their retail operation to take the British rupee without a slight discount, because they declare, whether rightly or wrongly, that the rude rupees supplied from their Native mints have more of silver in them, or are freer from alloy than the British rupees.

The gold mohurs produced in the Native mints were, I am informed, always more in demand for similar reasons than the British gold mohurs, when gold was received at our treasuries. To this day, the purity of the old gold mohur of Oudh, and of the gold mohurs coined at Jeypore, is held in high estimation.

These matters are valued with the greatest nicety by the Native cambist, and they descended into minute retail operations, to the extreme disadvantage of the very poor.

Those practically acquainted with India will understand how they must affect a widespread circulation of bank notes. The difficulty of generally applying bank notes, must remain, until the suspicions of the people have been allayed by practical and patient education, and their civilization in the matter concerned has reached the point we have lately, but very lately, seen attained in some European countries.

It is not asserted that a large development of the paper currency would not greatly facilitate the business of domestic commerce, the transactions in the large towns, the operations of great merchants and shop-keepers, and of Government in its several characters of State Landlord, Merchant, Producer, Administrator, Banker, and Provider of a currency. I desire only to show that what are called the masses, the hundred millions, with the slight exception perhaps of those living in the seaboard cities of Calcutta, Bombay,

Madras, and Kurrachee, will, for the present and for many years to come, fail to appreciate a system of paper representing Government promises to pay.

My object is to declare the strength and importance of the habits and customs,—of the immemorial feeling among the many races of which the people of India is made up,—that they must have intrinsic value in their hands, before they are convinced that payment has been made to them. In their present state of knowledge and civilization,—their habits of thought and of practice being based on the ideas of barbarous ages, when concealment and the hoarding of money were necessities of existence,—we should not expect them to hold different views. Such views will in the lapse of time come to be entertained, but it is in vain to attempt to force them forward. They must grow naturally amid tender encouragement.

In this matter we have to overcome what is called the “immobility” of the East. This we know successfully resists sudden pressure. It can be stirred only by bringing Nature to our aid, as we remove the bar from the mouth of a harbour, not by steam-engines and hydraulic presses, but by turning a current, which gradually washes away the immemorial obstruction.

So must it always be in the introduction of improvement into Hindustan. We do not find that the Natives of India are slower than those of other countries to profit by innovation, when their understandings have been convinced that advantage will flow from the change. But it is certainly true that the conviction must be practically won.

Theories are not taken on trust. The experience of other countries is not admitted as sufficient. Custom is paramount till it is dislodged by the actually evidence of the senses, that success attends a change, and that gain follows on the change.

This having been achieved, immobility is shaken among the masses, the bar finally disappears before the increasing strength of the new current directed against it.

Then is perceived what we have seen in the plantations of New Orleans, cotton in Southern India, and of tea in the North. In each case the people had to be practically educated to the point required for a change in their industry. The introduction of the change could not be effected in less time than that represented by a generation. It finally took place, because the people had at length convinced themselves by their own experience, that what was announced by Government and foreign planters was actually true.

These facts of Hindustanee nature, so important to the Legislator and the Administrator, must surely not be permitted to escape us, when we contemplate the introduction of convertible paper, and desire to substitute promises to pay in the hands of the people, for the metallic payment itself. For in this the uneducated and the timid have alone confidence, because as yet it is the only thing they have known, by which value could be represented, and the only thing which has been proved to them by the experience of ages to be durable and recoverable, when all other produced things might be swept away.

The social aspect of the question is after all the truly important one, that which presents enormous difficulties in the way of execution of a general paper currency. The economical theory of the advantages of a paper currency

is doubtless absolutely true; but we are convinced by a thousand instances, that in politics scientific truth must wait patiently, must gradually force itself on popular conviction, here a little and there a little.

An over hasty application of the most perfect economical system, which ignores the facts of the existing state of knowledge and civilisation, defeats the objects sought by the advocates of the change. In such case the Government of a country is fortunate, if the resistance it is certain to encounter, be only dumb and dogged, as it might be in India, instead of violent and inflammatory, as it assuredly would be in Europe.

It seems to me that those who, like the late Mr. Wilson, have had absolute faith in the virtue and the possibility of the immediate application of a convertible paper throughout India, have overlooked the foregoing considerations.

Thoroughly imbued with the truths of economical science, they have overlooked the social bar standing directly before them, submerged though it may be by the calm waters of Indian tranquillity and apparent submissiveness to the orders of Government.

They have forgotten that that submissiveness is perfect so long only as the personal interest of the individual is favourably concerned, but that at the point where the interest is either prejudiced, or the individual *thinks* it is prejudiced, the opposition becomes determined and invincible. It is none the less so, because of the outward calm of the spoken and acted submissiveness. As before said, we find ourselves in the presence of great results of natural causes. These results cannot be removed until the causes themselves are diverted.

Yet Mr. Wilson thought, and tried to act on the thought, that by a simple order of Government, the people of Hindustan might at once be induced to appreciate and use a convertible paper currency, which would have dropped on them as a novelty to be understood and fed on, as manna was by the Israelites in the wilderness.

It is not then too much to say that Mr. Wilson fell into the error of overlooking or of putting aside the political truths conveyed by the social aspect of the question.

It seems clear, that in his ardent desire to relieve the currency of India from the difficulties in which he found it, according to his own economical views, he entirely failed to estimate the obstacles presented by custom and habit, by ignorance and prejudice, by the facts of the enormous numbers of the population among which the metallic reserves of India are fractionally distributed, the principle of the Savings' Bank being as yet entirely unknown to them.

Mr. Wilson evidently must have reasoned as if he had had a British or an American public before him, which has been educated to the point of understanding that the convertibility of the bank note when real and positive under the authority of the State, or any other equally valid authority, is but another term for actual value.

His sanguine temperament was perhaps unable to appreciate that to cause such a truth to sink into the mind of the Indian population, and to become operative amidst its shallows, must be an affair of many years. He was probably misled by what he saw at Calcutta and at Bombay. He doubt-

less assumed, for the more convenient floating of his schemes, that the great masses of the Indian people differed in no respects from the native inhabitants of those vast trading cities.

Yet nothing can be more erroneous. Bombay and Calcutta evince the effects of a practical British education, which has lasted for two centuries. In the matters of trade, of the changes and improvements in the art of commerce, they have proceeded with the European countries, more especially England, with which they have been in direct communication. In such respects, therefore, the people of these cities resemble the communities of Liverpool and London, rather than the masses of their poor countrymen in the provinces, who are only now commencing the rudiments of a like education.

This has been practically seen in the districts, wealthy as they are, and overwhelmed by the sudden prosperity lavished on them by the cotton crisis, where the Bombay Bank has established its branches.

The people of those districts are shown to be not ripe for a bank-note circulation, and in point of fact they will not have anything to say to it.

They are greedy of the metals in every form. Silver coined or uncoined, gold in bars and golden bangles, have the greatest charm for them. Gold on such account is bought in the Bombay market and taken into the interior directly it appears. There is at present no more profitable trade than to import gold for this purpose. An ingot currency organised by the people themselves, has as it were sprung into existence, on account of the new value created in the country by the cotton crisis, and by the largely developed export trade following on it. But the bank note is despised in the provinces as it was before the strange, unlooked for, and enormous addition to the material wealth of the country, which has recently taken place.

It will be recollected that Mr. Wilson's schemes were elaborated in 1859, or more than a year before the outbreak of Civil war in the United States.

Nothing could be so favourable to the development of a paper currency as a vast accession to a material wealth, the consequent increase of transactions, and extraordinary impetus given to the activity of trade.

Circumstances on which Mr. Wilson did not reckon, have all been immensely in his favour.

Yet, so far as we know, whenever bank notes have been offered out of the presidency towns, they have failed to attract attention, while on the contrary the old passion for the possession of the metals, silver and gold, has made itself felt with tenfold force among the "nouveaux riches" of Hindustan.

Thus have old social habits been triumphant, and the artificial devices of the Art of Commerce, for the furtherance of the freedom of exchange and the saving of capital are steadily put aside, simply because their merits are not understood, and because the people are not educated to the point of understanding them, and therefore of departing from their ancient custom.

It is curious to note the determination of the population at large to acquire gold in preference to silver as a means of ornament and hoarding, so soon as their increased wealth permits of it.

The fact is remarked and reported by Collectors and Superintendents of Police. It is said that since the cotton crisis, gold bangles have in some

favoured cotton districts become almost as common as silver bangles were before. Sir Arthur Cotton relates that before the opening of the Godavery canals, the district of Rajamundree was one of the poorest in India. The irrigation of the soil converted it to a rich one.

He visited the district a few years after his canal labours had produced their fruits. Wealth had taken the place of the most ghastly poverty. The district had become a steady importer of *gold*.

It is then evident that the people must have and will have Gold.

The want of it being strongly felt in accordance with the instincts of the people, with regard to the late accession to their wealth, they are rudely proceeding to supply themselves.

Thus twenty-one millions of gold (pounds) have been imported into India since Mr. Wilson's currency scheme was propounded, viz., since 1860-61.*

Although his paper scheme was grievously mutilated, an attempt has been made since that date to float a tentative paper currency. That attempt has failed, as already shown, whilst the enormous sum of gold just cited has been absorbed so soon as it appeared, and this fact has taken place notwithstanding that gold is not coined in the British Mints, and is not available as a legal tender in payment of debts and taxes.

What is then the inference ?

By every consideration of regard for the people, for their convenience and the economy of their means, we are bound to give an administrative form to the solution of the problem of a gold currency, which in a rude and barbarous manner, they have, to a certain degree, worked out for themselves.

CHAPTER IX.

Change of values in India—Disturbing causes of value—Increased demand for metallic circulation—Popular instinct has corrected an administrative defect—It is our duty to follow the lead thus given.

A survey of Indian affairs during the last few years, makes us acquainted with circumstances which have an intimate connection with the subject before us.

Thus it is seen that many causes have tended to accelerate—perhaps it should be said to create—a new development in India.

The throwing open of trade fifty years ago has at length come to have its full effect: the foreign trade which was most insignificant at the commencement of the century now exceeds a hundred millions sterling. New industries, new commodities have sprung into existence to meet the wants of daily augmenting demands of foreign commerce.

* Importation of Gold to Calcutta, Madras, and Bombay :—

	Rs.
1860-61	4,50,92,243
1861-62	5,50,22,714
1862-63	6,72,25,794

In the incomplete financial year of 1863-64, viz., till 15th February 1864, the importation of gold to Bombay alone has been Rs. 4,13,46,748. This sum has been imported on private account and is exclusive of Government remittances.

Vast tracts of country which were formerly devoted entirely to the production of cereals, are now alienated to other purposes—to opium, to cotton, to oilseeds.

Provinces in which corn was not many years ago at a fabulously low price, are now importers of grain. The consequence has been that for several years a steady but certain rise of prices has been observed to be proceeding.

Much more of money has flowed into the country and been distributed throughout its wide area, than could be received and absorbed in former times.

Silver and gold have *alike* become cheaper, as a greater demand for other commodities has followed on two causes—the new demands of foreign commerce, and the enlarged power of consumption evinced by the people in consequence of their prosperity.

The latter circumstance is shown by the unfailing test of the salt taxes. The consumption of salt, as proved by the returns of the tax, is steadily rising, the craving for that necessary aliment being the first to be satisfied as a condition of health, as the means of the poor are ameliorated.

It will be understood that a largely increased foreign commerce must add immensely to the amount of domestic production, and therefore to the number of transactions, each in their own way demanding more consumption, more labour, more land, more conveniences, more means of exchange, more money, and an easier adaptation of money to the supply of the new wants.

These facts have all been visible in a very marked manner in India.

Thus great tracts of land are being daily brought into cultivation, which for ages had lain waste. There is no part of the revenue which is more* remunerative, more elastic, or shows a greater tendency to increase, than that proceeding from the land. Notwithstanding that the assessments or rates of rent are much lower than in former days, the actual amounts paid into the Treasury exceed those of the times of high assessments, because of the larger area brought under cultivation, and of the exactness with which the assessment is now paid.

Instead of a population which was too numerous for employment, there is now an active competition on the part of employers of all sorts to attract labour.

One great reason of the rise of prices in all descriptions of food is the greater disposition to consume. The people being richer, actually eat more than they did in their days of poverty.

The rates of wages are rising everywhere, but more especially in the neighbourhood of the sea-coast, where labour is most in demand.

The conveniences required by a great activity of domestic commerce have simultaneously made their appearance.

Thus railways, which create so many new industries and employ the population by millions, are becoming a part of the habits of the people, wherever they have as yet pierced. The same may be said of coasting and river steamers.

* This remark refers to the Presidencies and Governments into which the Permanent Settlement has not been introduced. In them the Treasury benefits as does an improving landlord whose ultimate returns are augmented by the prosperity of his tenants. Such a result seems to be precluded by the Permanent Settlement, which transfers this advantage to the Zamindar or large landholder in Bengal proper.

Hundreds of thousands of carts have within the last twenty years supplanted the pack-bullock and the camel in wide areas, in which formerly such carriage sufficed for the insignificant traffic of the country.

The Public Works Department of Government is striving to meet the demand for improved communications in aid of the railways, and to ease the growing traffic of the country to the best of its ability. Much is being effected—competition for labour both of man and beast being thus added by the Government to the exertions of Railway Companies, and to the energies of other employers.

If we turn to other matters of convenience, we remark that numerous Banks have been established, that the small capitalists are making themselves felt in India as they do in Europe, in the form of "Companies," for carrying out the purposes of trade and manufacture.

It is observed that within the last quarter of a century a system of barter still prevailed in many parts of India.

The country was too poor in some parts, to own the presence of money, to be able to pay for the convenience of it. Now, on the contrary, the Rupee has penetrated everywhere, and it is doubtless true, as remarked by His Excellency Sir Bartle Frere, that one of the causes of the increased demand for silver and gold may be found in the simple fact that in such lately pauper districts an entirely new circulation has had to be recently supplied.*

Let us add to this cause another. Let us recollect that countless individuals, who must be reckoned by scores of millions, have respectively come to be the possessors of small portions of reserve wealth, which they either consume, save, or employ in reproduction. We shall then be able to form some idea of the immense, but comparatively new demand for increased means of metallic currency, which cannot be measured by European or American experience.

What then have we to note? It is simply this. India has within the last generation, passed from a state of poverty to one of comparative wealth, this being shown by all those signs which we are accustomed to consider as certain unerring symptoms of prosperity and wealth in the communities of Europe, *viz.*, the cheapening of the precious metals with regard to other commodities, increased power of consumption among the people, the great and still growing demand for new means of metallic circulation, the augmented demand for labour, the development or the creation of the expedients by which in civilised and rich countries it is sought to economise the labour of man and beast in every form.

It is thus seen that what I have more than once alluded to as disturbing causes, in their effect on ancient values in India, have been of late very great. While on the one hand, accidents have tended to slightly raise the value of silver, in foreign countries in which exists the legal coin of the Indian Empire; on the other, the material development consequent on an era of peace and prudence and fairly good government, have much more enhanced the value of domestic productions, and therefore of the cost of labour in India itself; comparative competency flowing in on countless individuals, and great wealth on very many.

* See *Supra*, Chapter II, Definition of Currency.

Such facts alone must convince every one that, putting all other reasons on one side, we have in these circumstances an ample cause for great increase in the circulating medium.

The vastly augmented numbers of transactions as compared with former times, the rise of wages throughout the country following on the demand for labour, together with the increased market value of all commodities as shown by selling price, have called for a great addition to the amount of metallic money in circulation and in deposit, for the mere execution of business.

This would be a certain result in any country in a condition of rapid progress, but it is tenfold more so in India, if we take into consideration the habits of the people, which have been adverted to in a preceding Chapter. These habits, it will be remembered, preclude the idea of a paper currency being allowed the fair play, which it obtains in more advanced countries.

There is yet another consideration.

It is doubtless true that the addition to wealth among the people at large will produce a change of manners at no very distant date. We shall ultimately see commodities imported into India for the satisfaction of luxury and comfort among classes to which such matters have been hitherto unknown. The change of manners has already taken place in Bombay itself, and importations are seen accordingly to meet new wants.

Perhaps the change may be said to be beginning to make itself felt in the provinces, since the great flux of prosperity poured on the merchant and cultivator by the cotton crisis.

If this be so, it can be but a very slender beginning. We must wait for some years before we can expect that the Indian mind generally will undergo a great change. It will not immediately look for value in increased comfort, such as is to be obtained from imported manufactured commodities, to which it is as yet not accustomed. It will still prefer to revel in the possession of a certain quantity of silver and gold, and to be satisfied with such further consumption as is an accordance with the productions of the country and the prevalent notions of enjoyment.

The old craving for the precious metals is as strong as in the days of poverty. This cannot therefore but cause the disappearance from circulation of great masses of metallic capital, the ancient habits of the people thus combining with the new activity of their modern commerce and industry, to stimulate the demand for the metals, to increase the amount of deposits, and therefore to cheapen the value of the metals, to reduce them in price, as compared with other commodities.

This process, half economical and half social, by which values are thus disturbed, has been proceeding in the Bombay Presidency in a very marked manner. Great numbers of the population are afflicted almost to starvation on the one side by the rise in prices, *viz.*, those who live on very small fixed incomes, while the fortunate owners and tenants of the land, and the merchants and shop-keepers on the other, are overwhelmed as it were with the silver and gold which has been heaped on them, and with which as yet they hardly know what to do, beyond amassing it in a glittering heap, turning copper bangles into silver bangles and silver ornaments into gold ones.

The union of the old social causes with the economical one of material improvement, the two operating towards the same conclusion, which drags

the precious metals from the West to the East, is one of the circumstances of the difficulty the currency of India now encounters, which has the most escaped consideration.

The fact is powerful in showing that even if silver was adequate to the wants of Indian circulation before the setting in of the late prosperity, it is no longer so. For unless corrected by the determination of the people to have gold as a representative of value, whether or not it be coined into money, the circumstances of improvement would all re-act in raising the value of silver, and therefore in adding to the burthen of those who have contracted to pay value according to the nominal legal tender of the day; for, as already shown, an addition to the functions of the circulating medium must add to its value as a commodity, because more of it is drawn from the other uses for which it is produced.

The correction of the wants of the currency has been enforced by the practice of the people. It is evident that in the popular estimation, gold is a representative of value equally with silver, and the people are determined that it shall so remain: The popular instinct has been wonderfully true to its own interest. In spite of the legal restriction conveyed in the sole legal tender of silver, the instinct operates largely to do what has been done in France and the United States by means of the double standard.* That is to say, the force of that instinct has generally maintained the former relative value† of gold and silver in India, although with a slight depreciation of the former, by compelling the large importations and the distribution of gold, in spite of the prohibitions to discharge obligations in coins of that metal.

The value of the phenomenon here noted with regard to the question before us is immense, it being evident that ‡ *both gold and silver* have been for a long time bought at remunerative prices in Europe for the purpose of exportation to India.

If silver is cheaper in Europe, Australia, and America than it is in India so is gold; that is to say, the commodities returned on account of the two metals are more in demand in the other quarters of the globe, than the metals are.

On the other hand, in India itself, the metals, owing to the abundant importation to the East, are cheap with respect to all other commodities and to the hitherto customary cost of Indian labour. But the cheapness affects *both silver and gold alike*, and the relative value of the two metals has been only slightly affected in India, because, although gold has been legally demone-tised, the instinct and ancient custom have been triumphant in retaining gold as a representative of value, and are causing it to perform some of the most important functions of money.

Can further proof be required of the illusion under which Mr. Wilson must have proffered his advice in 1859, and the Government of India issued its prohibitory orders to receive gold at the Treasuries in 1852?

We are therefore again brought to the point reached in the last Chapter, viz., that on account of the convenience of the people, this resting on new economical grounds as well as the old social ones, we are bound to follow

* *Vide Supra*, Chapter V

† *Vide* Appendix, Tables of Value

‡ *Vide* Tables F. G., in the Appendix.

the lead they have given us, to afford an administrative form and sanction to a gold currency.

However strange it may at first sight appear, it is doubtless true that the popular instinct has saved us from much difficulty in giving practical effect to the necessary arrangements.

Thus knowing as we do that importation of gold has been of late years proceeding at an accelerated ratio as compared with former times, that consequently immense masses of gold are held in the country, and that the gold so held must proportionally have displaced silver, we cease to fear an alarming depreciation of the value of the latter when it shall be partially and gradually demonetised by the introduction of a gold currency.

It being thus clear that great stores of reserve value are maintained in gold by the practice of the people, we are saved from the dread of committing ourselves to a measure which may in any manner interfere with the national tastes, or invade the national notion of value, with regard to the discharge of obligations in their integrity.

Such reflections are especially important to us, as removing even the faintest idea of want of equity towards the holders of silver, whether they be wealthy capitalists, or the poor, who, in individual slender savings, build up national deposits, as islands of coral are produced in the ocean.

These considerations have a like weight in answer to the objection which has been conjured up, but it is hoped has now been dispelled, with regard to the fanciful assumption that in the discharge of obligations the actual metal of the fortuitous legal tender or current coin must be absolutely considered, instead of the value it represents.

We may believe with certainty in consequence, that no change of any importance in the popular consideration of the value of the silver rupees, could ensue on the introduction of a gold currency. Existing stores of silver would be absorbed gradually but certainly in manufacture, and by the universal taste for jewellery among all classes, rich and poor, the only effect being that the importation of silver would diminish, perhaps might almost cease for a time, while an impulse would be given to the importation of gold.

As respects national tastes and desires, we should but revert to a concurrence with the habit of thought, which has been sufficiently powerful to resist the enforcement of the sole legal standard absolutely ordered in 1852, in opposition to the old customs of India, and to the practice of all Governments preceding ours, that practice having been our own till a recent date.

CHAPTER X.

Caution necessary in the mode of Introduction of the Gold Currency—Transition period of Double legal tender—Token Coinage inadmissible during such period.

It is hoped that much of what has preceded may be borne in mind, in considering how practical effect may be best given to the demand made for the introduction of a gold currency into India.

The social facts of India to which allusion has been made, as well as the illustration afforded by other countries in similar circumstances of change, seem especially worthy of reflection, when we determine what is to be done in the matter before us.

Thus knowing as we do that an immense quantity of silver coins is held in the country, a considerable time must elapse before the masses of silver which are in deposit and in circulation can make place for gold. This is so on two accounts.

A sufficiency of gold coinage cannot make its appearance *per saltum* in exchange for the silver. Time is required for the mere mechanical operations of the mint, and when the gold has been coined, for its further distribution through the country. It is evident that if a hasty order were given to make payment of revenue receivable only in gold, the gold coins actually in existence would go up to an extravagant price, because more would be demanded than are now probably to be found in the market, whatever the exertions made by the money-changers.

Secondly, it is most desirable on other accounts, that whatever change is made should take place most gradually, according to the demand evinced by the people, as the mode in which it may operate on their interests dawns on them.

We cannot be too careful to avoid the charge which might be justly made if by a sudden and absolute demonetisation of silver, we were suddenly to reduce its value in the local markets. This consideration has great weight with regard to the amount of silver now in the country. The *gradual* and due absorption of that metal is demanded by every principle of justice and equity, before gold can be *absolutely* substituted for silver in the currency. Absolute substitution is a very different thing from adding gold money to the present existing silver money.

We must be further careful, as a matter of social policy, not to disturb the popular, existing, and healthy notions with regard to value and exchange. To ensure this, when we present to the people coins of the two metals for general use, instead of one as heretofore, we must not interfere with the reigning idea, that the coins of both metals are valued by the people on account of their intrinsic value, that is to say, of the amount of the metals actually contained in the coins. For some time to come, both metals, when in the form of coin, must run their chance as commodities of trade without assistance.

Relative Mint values with regard to certain considerations being fixed between gold and silver, the facts of the ultimate settlement of the particular function of money, will determine themselves according to the laws it has been sought to illustrate.*

In such respects then, we have but to follow the example which has been set to us by the United States and by France. We are forced to admit the necessity of a transition period of double legal tender, during which gold and silver must be permitted to compete on their own merits. The facts and arguments before stated are sufficient to determine the ultimate success of the gold. †

The necessity of a transition period being admitted, we must infer that a token coinage could not be issued during such period.

The success of a token coinage is the practical evidence that one metal, gold, has been substituted successfully in currency and deposit for another

* *Vide Supra*, Chapter V, on the double Standard of value.

† *Vide Supra* Chapter II on "The economy of Gold as the medium of currency as compared with Silver"; also Chapter IX, "On the demand for a Gold Currency as declared by the popular instinct of India."

metal, silver. The power to introduce a token coinage, and to cause it to be adopted generally, is a result of the completeness of the change, which has been effected by the operation of the superiority of gold over silver, for the performance of the functions of currency and deposit in a wealthy country. A token coinage is then the consequence of a perfected antecedent.

To apply a silver token coinage, before the change from silver to gold has been finally effected at large in currency and deposit, would therefore be to apply a result, in anticipation of the causes which may hereafter render a token coinage expedient, but as yet have not come into operation.

Let it further be carefully borne in mind, that a necessity of a token coinage of silver for small transactions, is the sign that silver no longer exists in any quantity in a country. When the necessity of a token coinage is felt, silver is no longer found in deposit to meet the demands of foreign trade or to represent the reserve value kept in store by a community. The necessity of the token coinage is the indication, that the silver in a country does not more than suffice for the purposes of manufacture and jewellery, and that none is left for the discharge of large obligations.

In India we know that the direct contrary is the result of the very measures we have taken of late years, to monopolize the functions of money in silver to the depreciation and expulsion of gold, however much our measures have been corrected by the popular instinct. Consequently, in India, the cause which necessitates a token coinage does not yet exist.

There is, besides, another reason, which is strongly opposed to the introduction of a token coinage, until it shall have been ascertained by the people to be necessary, because of the disappearance of silver from circulation and deposit, as was shown in the case of the United States in 1853.

The argument against a premature token coinage, and against a hasty forcing forward of a Bank-note circulation, is identical. The people of the empire generally are not educated to the point of receiving either a token coinage or bank notes as representatives of value, which intrinsically they do not possess.

The disappearance of silver may ultimately force the people to appreciate the superior convenience and profit to themselves, as afforded by a token coinage in the place of full weight silver rupees, and full weight fractional parts of a rupee.

Till the cause has taken place, *viz.*, the disappearance of silver from circulation and deposit, we can well afford to wait.

For in truth the primary use of a token coinage is to atone as a matter of convenience for the absence of silver. The secondary and equally important use of a token coinage is to fix the metallic currency, and to protect it from the chance of further fluctuation, when the substitution of gold for silver has been finally carried out.

I think, therefore, we may assume, that on the introduction of a gold currency, a period of double legal tender must be undergone, while the substitution of gold for silver is gradually taking place in the currency and deposits of India.

Secondly, so long as the double legal tender or period of transition lasts, a token coinage would be inconsistent, and indeed impossible in such a condition of things.

Thirdly, that so soon as in the course of years, the substitution of gold for silver in currency and deposits has been effected, it will be possible, and in all probability prudent, to introduce a token coinage.

With respect to the latter conclusion, we must not hope that the rapidity of the process of substitution, which was perceived in the United States, will be seen in India.

It is not improbable that what four years could do in the former, may require the period of a generation in the latter. This, however, is but another argument for doing nothing hastily, and against urging any measure, which might attempt to force the natural growth of opinion and appreciation.

CHAPTER XI.

CONCLUSION.

The denomination of the Rupee to be retained as a matter of course—How Sovereigns may be used—The equivalent of Gold and Silver declared in Act XVII of 1835 may be maintained—Legal tender of Gold in addition to that of Silver should be created on such a basis.

It will, I presume, be conceded, that whatever we may do in the matter of introducing a gold currency, we must retain the denomination of value in which all obligations have hitherto been contracted.

As the franc has been preserved in France, and the dollar in the United States, the gold value of both alike having been gradually substituted in currency and deposit for the old silver value, so must the rupee continue to assert its ancient position in India, whether its value be represented in gold or silver.

It is expedient that gold coins, struck for the purpose of domestic exchange, should be multiples of the rupee as laid down in the Act of 1835.

It is not to be expected that any foreign coin, which has been called into existence with regard to another basis of calculation, can be an exact multiple of the rupee.

In an accidental state of the money market, amidst the fluctuations of exchange, circumstances might occur for a single day, to render the foreign gold coin such an exact multiple for a moment in the market prices.

The price would be abnormal.

To adopt the *foreign* gold coin into a *native* circulation on such terms, to declare that it shall be the permanent multiple of the silver native coin, because, on one particular day, it happened accidentally to be so, would be to give permanence to an abnormal circumstance, and in all probability to attempt to fix a scale of relative values of the metals, which is not borne out by the facts of general *domestic* exchange.

Thus the idea has been entertained, that it would be very convenient to use the introduction of a gold currency into India in such a manner, to establish the sovereign in India as it is in England and Australia, to seize on a particular time when amid the fluctuations of exchange, the sovereign should represent the exact value of 10 rupees, and then from henceforth to declare (such value having been momentarily obtained), it should so remain permanently, it being received as legal tender in payment of debts and taxes.

But it is clear that if the sovereign is generally worth more or less than 10 rupees, the due estimation will be taken of the fact in foreign markets, irrespectively of the considerations which might influence an Indian Government in making such a regulation. If the sovereign was worth more than 10 rupees according to average, it would be exchanged to India for a greater value than that of the ten rupees, and *vice versa*. In the former case, so far as the function of money is concerned, silver would be paid for taxes and debts, and the sovereign would be retained in deposit or disposed of, as being more valuable than the legal tender the sovereign represents.

In the opposite case, if the sovereign in foreign markets was of less worth and could be imported for less than 10 rupees, all taxes would be paid in it and silver would be sold at a profit, Government being the loser.

There seems to be only one mode of using the sovereign in India in circulation, that being to permit it to be offered in payment, according to the value it bears relatively to the Indian gold coin legally established as the multiple of the rupee, one per cent. being allowed for Mint charges,* to put it on the same footing as gold coined in India.

Thus the British Indian gold mohur being held by the Act of 1835 to be equal to 15 Rupees, gives a value of 5s. 2½d. to the ounce of silver + 0½d., which may be considered the difference of Mint charge between gold and silver.

This being so, if the value of the sovereign† be calculated on a similar basis, its worth must be taken Rs. 10-4-4, its intrinsic value at 5s. 2½d. being Rs. 10-6-1½ the difference between the two sums being that which would represent the Mint charges, if the sovereigns were coined in India instead of being imported.

Consequently, if it be determined to effect a large coinage of British 15-rupee gold pieces or gold mohurs, and to accept them as legal tender for such value, there would seem to be no objection to permit the sovereign to be also legally tendered at a uniform rate of about Rs. 10-4-0.½

A convenience to the local Mints might be afforded by such a rule, and an important advantage would be gained for the trading community generally, by the fact that gold specie coming from England and Australia, would thus be enabled to take its place in circulation immediately after it was landed.

*The Bombay Mint charges are as follows :—

One per cent. on gold, two per cent. on silver ; this is called *Seignorage*. There is besides a remelting charge of one per mille on silver, and .25 per mille on gold. Colonel Ballard remarks that " the difference of charge should be maintained. Gold is cheaper to coin than silver, and therefore entitled to the advantage."

† In estimating the relative value of sovereigns and Indian coins, for the purpose of circulating the former, it is clearly indispensable to burthen sovereigns with the Mint charge, to which the domestic coinage is necessarily exposed.

‡ Intrinsic value of the sovereign in silver rupees, when silver is worth—

		Rupees. Sovereign.		
		s.	d.	Ra. A. P.
4s.	11d.	per ounce	= 1 9 92	= 10 15 2.18
5s.	0d.	"	= 1 10 29	= 10 12 3.29
5s.	1d.	"	= 1 10 66	= 10 9 5.53
5s.	1½d.	"	= 1 10 84½	= 10 8 1.07
5s.	2d.	"	= 1 11 03	= 10 6 8.36
5s.	2½d.	"	= 1 11 12	= 10 6 1.07

§ Vide Table A in appendix, which shows that this rate gives approximately the price which has ruled for several years.

It is well known that the public is in time of money pressure greatly incommoded by the want of coined money, when the vaults of the Mints are crammed with bullion, which it cannot work off into coin under two or three months. This happened in November of 1863, and is again the case now in March of 1864.

Surprise has sometimes been expressed at the fact, that even while gold was receivable at the Treasuries in payment of taxes, so little was ever offered by the people in former times.

The reason of this may perhaps be stated to be the same as that which drove gold away from France,* between the years 1801 and 1850.

The value of gold was really considerably greater in the Indian market than it was rated by law in the Act of 1835.

Thus Colonel Ballard, the Master of the Bombay Mint, estimates that the value given to silver by that Act, after deducting the Mint charges on coining, is 5s. 2½d. the ounce.

But as we have seen, Mr. Wilson estimated the value of silver, and doubtless with correctness, to have been about 4s. 11d. prior to the gold discoveries. At this price, the sovereign is worth very nearly 11 Rupees, the British gold mohur struck to represent 15 Rupees, being on such terms worth more than 16 Rupees. Consequently, the Indian Act of 1835 declared silver to be worth 3½d. per oz. more than it really was, as interpreted in the price of gold by the public.

This being so, it is evident that so far as the payment of taxes was concerned, it was absolutely contrary to the interest of the tax-payer to pay in gold, and he accordingly did not do so. Gold remained a commodity of trade in the British provinces, and was very rarely offered at the Mints for coinage. The Native Mints on the other hand have, it is said, continued to be comparatively active in turning off gold coins, which have always been in high estimation, as an irregular vehicle of value among the subjects of British India.

Circumstances have however combined to establish the price of silver at about 5s. 2d. At this present date it is indeed higher, it having reached 5s. 2½d., or closely to the price indicated by the Act of 1835, with respect to the value of the British gold mohur of 15 Rupees after allowing for Mint charges.

The causes which have been alluded to, *viz.*, the demonetisation of gold in India under the orders of the British Government, and the importation of gold which has taken place notwithstanding that demonetisation, combined with the favourable balance of trade, seem thus to have generally corrected the original error of official calculation with respect to the relative values of gold and silver, just as the discovery of the gold mines and the imprudent conduct of other Governments had corrected a similar official error of calculation in France.

That is to say, the rupee has come to have nearly the value in gold, which was formerly but erroneously attributed to it.

This being so, we are perhaps relieved from a very difficult and responsible duty. We are saved from entering into a calculation, with an intention of re-adjusting the legal equivalents of gold and silver in India.

* See Chapter V.

It appears that we may simply take the basis* laid down in the Act of 1835 as we find it, and leave it entirely undisturbed, so far as this very important part of the question of introducing the legal tender is concerned.

It may perhaps be urged that the price of silver is now exceptionally high, and that it cannot last, and therefore that it will be found still to exclude gold as it was excluded formerly by the same cause.

There would certainly be some force in the objection, the difficulty being not so much the decreased value of gold, as feared by Mr. Wilson, but the value it maintains in India, on account of the estimation in which it is held by the people. The price of the sovereign† is at this date of writing Rupees 10-6-0 in the Bombay market, which indicates 5s. 2½d. the ounce of silver very closely.

The circumstance of price as just stated is not altogether undesirable, as it leaves a certain slight margin for the cheapening of gold which may possibly take place through the ultimate opening of direct trade with Australia. Such trade, as observed in the Memorial of the Bombay Chamber of Commerce, will cause gold to come straight to India, instead of making the round by Europe, either there to be exchanged for silver, the latter being bought for exportation to the East, or gold itself coming to the East with the burthen of all the charges consequent on a voyage round the entire globe.

I think, therefore, that we may consider that the values about declared in the practice of recent years will be maintained, and that the superior convenience of a gold currency over a silver one, will be sufficient to overcome any small difference which may remain.

If after the lapse of a few years, practice should declare that the relative values of gold and silver asserted in Act XVII of 1835 remain nevertheless more favourable to silver than may be sanctioned by average market prices, gold being thereby forced out of circulation, it would then be for the administration of the day, seriously to entertain the question of re-adjusting the legal equivalents.

In the meantime, the values‡ asserted by the Act being removed but slightly from the actual selling prices of the two metals at the ports of importation, if allowance be made for Mint charges, we can hardly do better than rely on the basis afforded by that Act for the present introduction of a gold currency. The advantage of this, as avoiding the semblance of arbitrary administrative change, is great in every way, but more especially with regard to Mr. Wilson's breach of faith argument, which, however fallacious, will be sure not to be without some adherents? if we cannot quote an ancient unrepealed law and precedent in favour of any scheme we may desire to carry into effect, for the introduction of a gold currency.

I would propose, therefore, that the legal tender of gold should be enacted on the basis of equivalents submitted by Act XVII of 1835.

* This seems to be accepted in the proviso to 3rd para. of Clause IX of the Act XIX of 1861, for issue of Bank-notes in India.

† Owing to certain reasons connected with exchanges, into which it is not now necessary to enter, this price is liable to oscillate, being now greater and now less. The tendency of gold of late years has been to rise in value as compared with the prices of 1857-58, see Appendices A, D, E and F.

‡ Lieutenant-Colonel Ballard, of the Bombay Mint, has favoured me with the following note:—

By the Act of 1835, the value given to silver taking the intrinsic value of these coins (those stated in the Act), is about 5s. 2½d. Allowing one per cent. for the extra cost of coining silver, it would give about 5s. 2¼d., so at the present rate it would not be a bad basis."

That the gold legal tender should not for the present be in substitution of the silver tender, but in aid of it.

That in accordance with the above, sovereigns should be allowed to run and to be legal tender at their relative value, including seignorage charge, on the basis of the equivalent established by the Act XVII of 1835, *viz.*, at Rupees 10-4-0. That the issue of notes should take place in exchange for Gold and Silver bullion alike, without any administrative distinction between the two metals.

That the Mints in India should be directed to coin gold in the coins described in Act XVII of 1835 in large quantities, and to invite the public to offer it for the purpose.

It is said in some quarters, and in all probability correctly, that at present Indian gold coins obtain an artificial value in the inland bazars because of their rarity,—this reacting on the price of the coins at the Presidency. If this be so, we have another reason for throwing a large quantity of gold coins on the country. It is probable that the public do not appreciate the fact, that no prohibition exists against a gold coinage in the Mints; such a notion of prohibition is not unlikely to result from long disuse on the part of the public, following, it may be presumed, on the action of the Indian Government with regard to gold. None of it has of late years been offered for coinage out of Calcutta.

IX.

MINUTE, DATED 20TH JUNE 1864, BY THE HONOURABLE SIR C. TREVELYAN
ON A GOLD CURRENCY FOR INDIA.

The Chambers of Commerce of Calcutta, Madras, and Bombay have
Chambers of Commerce and Native memorialised the Government of India for a
Associations of Calcutta and Bombay. gold currency.

2. The application of the Chamber of Commerce of Calcutta is for the appointment of a Committee to inquire into the best mode of introducing gold as an auxiliary currency. They are "strongly in favour of the introduction of gold as an auxiliary currency, and as a tentative measure which they believe will gradually, but surely, lead to the adoption of gold as the general metallic currency of this country, with silver as the auxiliary; but they are opposed to any sudden change being attempted, fearing that any such attempt would prove unsuccessful, and be likely to cause great derangement in the commerce and finance of India, and probably also in the money markets of Europe, if a large quantity of gold were suddenly required to carry out such a change."

3. The Madras Memorial prays for the extension of the Government paper currency, and the introduction of a gold currency. The Chamber observe that "the comparatively low wages of labour in India, and consequent multitude of small payments, render it desirable that the lowest denomination of note should be reduced to five Rupees," and that "a convenient sub-division of whatever gold coin might be adopted into halves and quarters, for the purpose of small payments, would be necessary."

4. The Memorial of the Bombay Chamber contains an able summary of the reasons for introducing a gold currency, and concludes with earnestly entreating the Government "to take this important question at once into serious consideration and to effect an amendment which is so loudly called for, by introducing a well-regulated gold currency into India."

5. There is also a Memorial from the Bombay Association, which represents the Native Mercantile community. This sets forth that, from time immemorial, India possessed an extensive gold currency; that the stringent regulations of the British Government have virtually extinguished this currency, but have by no means extinguished its popularity; that rude attempts are made by some of the Natives of India to remedy the defects of the present inconvenient silver currency by circulating gold bars authenticated by the stamp of Bombay Banks; and, after a general statement of reasons, the Memorialists pray that the Government "will take this question into immediate consideration and restore a gold currency, which the altered circumstances of the world recommend, and which your Memorialists believe would be most popularly received in India, both from ancient associations and present convenience."

6. The Native merchants and bankers of Calcutta had previously, in May 1859, memorialised the Government of India for a gold currency, stating

that the Natives of India preferred gold to silver on account of its portability, and the facility which it affords for holding large sums in security. The feeling of the Native merchants and bankers of Upper India may be seen from the papers in the Appendix.

Appendices H. to P.

7. Minutes have also been recorded by the members of the Government of Bombay. The Government of Bombay.

8. The Governor proposes that we should, in the first place, act on the provision in the last clause of the 9th Section of Act XIX of 1851, which allows gold bullion or coin to be held to the extent of one-fourth of that on which notes are issued; and he suggests that the next step will probably be to permit the Government revenue above ten rupees to be paid in sovereigns. He adds that "it will probably be necessary that we should pass through the inconvenient and anomalous stage of a double or alter native standard."

9. Mr. Frere agrees with the Governor, but Mr. Inverarity thinks the measure proposed by His Excellency totally inadequate for the introduction into India of a well-regulated gold currency, and supports the views contained in a letter from Mr. Walter Cassels to the Governor, of the 1st of January 1864. The practical proposals contained in this able letter are as follows:—

"Placed as India, in a manner, is between gold-producing countries and Europe, the first consideration must be to fix the Indian Mint value of gold, so as to preserve a fair mutual equilibrium of value between ourselves, Australia, and England. This value, therefore, should not be so high as to render it profitable for Australia to send gold to be coined at our Mints, nor should it be so low as to admit of the advantageous export of our gold coin as bullion to Europe.

"It is, likewise, highly important that, as much as possible, a gold coinage should, for the present, be built upon the existing silver currency, so as to introduce the change with as much regard to private interests as may be. I, therefore, venture to suggest the issue of gold coins similar to the sovereign and half-sovereign, and respectively representing ten and five rupees, with subsidiary silver token coins, of limited tender, rated seven to ten per cent. above their real value. The existing silver coin might, for the present, be allowed to continue legal tender to the extent even of five hundred rupees, and this limit might hereafter be reduced according to circumstances. The new gold coins should be of an intrinsic value, which should place them on a safe basis in relation to the old rupees, and they could, by subsequent alteration of the limit of tender, be protected, if necessary, from the effect of any unforeseen fluctuation in value. Possessing, as they do, a well known intrinsic worth, the old rupees would no doubt, for the present, be freely received to a much larger extent, but not being replenished by fresh issues, being retired as rapidly as they came into the Government treasuries and replaced by new token pieces, I have no doubt that in a few years they would disappear from circulation, and that the change of standard and currency would thus be effected without any sacrifice disproportionate to the benefit secured."

10. Sir William Mansfield, the Commander-in-Chief of the Bombay Army, has recorded a remarkable Minute, in which the subject is handled in a masterly manner. It concludes with the following recommendations:—

"I would propose, therefore, that the legal tender of gold should be enacted on the basis of equivalents submitted by Act XVII of 1835.

"That the gold legal tender should not, for the present, be in substitution of the silver tender, but in aid of it.

"That in accordance with the above, sovereigns should be allowed to run, and to be legal tender at their relative value, including seignorage charge, on the basis of the equivalent established by the Act XVII of 1835, viz., at Rs. 10-4-0. That the issue of

notes should take place in exchange for gold and silver bullion alike, without any administrative distinction between the two metals.

"That the Mints in India should be directed to coin gold in the coins described in Act XVII of 1835 in large quantities, and to invite the public to offer it for the purpose."

11. The most striking feature of this movement is its universality. There are differences of opinion as to the mode in which the object is to be attained, but all agree *that there ought to be a gold currency*. The proximate cause of this unanimity is the painful impression of the crisis through which we have just passed, and the desire to avert its recurrence. The first thing to be considered, therefore, is the nature of that crisis, and how far the means of prevention or mitigation are in our power.

12. The state of things at Calcutta, Madras, and Bombay, between November 1863 and March 1864, has been compared with that which prevailed in London in 1847 and 1857, but it had little in common with it. In India there had been no drain of specie owing to an unfavourable state of the foreign exchanges; neither had there been extensive over-trading. There had been much *bold* trading in cotton and piece goods, but the market had been continually rising, and large fortunes had been made. There had also been much active enterprise in Joint Stock Companies for the cultivation of tea and for other industrial undertakings; but the public confidence in their profitable character remained unshaken. Individual shareholders might find it difficult to pay up their calls; but this was the consequence, not the cause of the convulsion.

13. The root of this great evil lay much deeper. From time immemorial Europe had been unable to provide merchandize which India was willing to accept in return for the valuable products she had to offer, and the balance had to be paid in the precious metals. This was arrested for a time by the large supplies of cotton cloth sent to India after the opening of the trade in 1814; but the normal state of things soon returned, and since 1847-48, the importation of specie has been continually increasing.

14. The development given to the export trade of India by the Russian War in 1854, and by the American War which began in 1861, greatly augmented the balance which had to be paid in specie. It was not merely that vast additional quantities of fibres, oil-seeds, and cotton, had to be paid for. The increased demand upon the resources of India could not be met at former prices. A large proportion of the cultivated area of India was diverted from raising food to raising exportable produce. A large proportion of the labour of India was diverted from the immediate work of production, to the construction of railroads and roads to convey this exportable produce to the coast. In consequence of this, the price of labor and of every article of domestic and foreign consumption went up together. Cotton, which was the subject of keenest competition, rose in the rural districts to three or four times its former price. The result will be seen in the remarkable return of imports and exports of merchandize and specie in the Appendix.

15. The nature of the crisis in the three great Indian ports in 1863-64 will now be better understood. It was not, in its origin or true nature, a *monetary* crisis. If the trade between Europe and India had been conducted

by an equal interchange of merchandize, it could not have happened. But, while the exports of merchandize in 1863-64 amounted to £67,459,795,* the imports were only £30,384,828, and the balance, amounting to the great sum of £37,074,967 had, for the most part, to be paid in specie. The exigency, therefore, arose from the peculiar conditions of the foreign trade of India. The people of India were only beginning to appreciate the articles of comfort and luxury which England was able to supply, and they were totally unprepared to accept as equivalents the manufactures she had to offer for the sudden increase of produce demanded from them. The only article which was in universal demand among them was specie; and, as the chief employment of specie is in the manufacture of money, and gold had been excluded by the regulations of the Government of India from this employment, silver had to bear the principal strain. In other words it was emphatically a *mercantile* and not a monetary crisis, and silver and gold must be regarded in reference to it, as ordinary articles of the import trade.

16. The money already circulating in the country was sufficient for carrying on its internal exchanges. Judging from the prevailing high prices, it may be questioned whether it was not more than enough. The means of meeting the additional demand caused by the peculiar state of the foreign trade which has been described, were however, entirely deficient. There is nothing in India like the Bank of England, which keeps a reserve of cash for the whole country. The produce exported to England is paid for by remittances from England, effected partly by bills upon the Indian treasuries purchased at home, partly by bills upon England or China sold in India, and partly by consignment of specie from Europe or Australia. Every year, at the commencement of the cold weather, a call is made for specie to be sent into the interior to pay for produce to be sent down to the ports, and during the interval money is comparatively abundant.

17. Towards the close of 1862, this annual craving for specie was greater than usual; but in November 1863, a demand set in, which was unprecedented for intensity and duration. Although the banks of Bengal, Madras, and Bombay were reinforced by large sums from the cash balances, of which they had the use under their agreements with the Government, their available funds were speedily exhausted. Firms possessed of large

* The increase in the value of the merchandize exported from India in 1863-64 is accounted for to the extent of £16,680,368 by the increased value of the Cotton exported. The Return for the year 1863-64, appended to my Financial Statement, has now been completed as underneath. The rest of the difference will, I think, prove to have been chiefly due to the general increase in the price of Indian produce caused by the conversion of land to Cotton cultivation, and by the extensive system of works in progress, rather than to an increase in the quantity exported.

Raw Cotton exported from Calcutta, Madras and Bombay in twelve months, from the beginning of May to the end of April, in 1862-63 and 1863-64.

	1862-63.		1863-64.	
	Quantity.	Value.	Quantity.	Value.
	Cwt.	£	Cwt.	£
Calcutta	4,8,779	1,56,690	574,981	3,080,590
Madras	556,760	2,381,288	647,340	4,471,811
Bombay	3,767,435	14,834,565	3,616,783	27,911,590
TOTAL	4,223,024	18,783,543	4,839,003	35,463,911

resources, provided time was allowed to realise them, must have declared themselves insolvent if they had been pressed to liquidate the claims upon them. Fabulous rates were paid in the bazar for ready money. Government securities, which had been at par, suddenly went down to 83, not because there was any want of confidence in the Government, but because everybody wanted to sell, and nobody had money to buy. With the relaxation of the pressure, Government paper returned nearly to par. The only security which completely held its ground was the Government note currency. It must be also recorded to the honor of these great mercantile communities, European and Native, that, throughout this period of extreme pressure, when the fall of any one house might have involved widespread ruin, the greatest mutual forbearance was exercised. This may have been in part owing to a just perception that the responsible persons in this country were acting on behalf of principals in England, and that every claim would be fully satisfied as soon as the requisite remittances could be made.

18. The position then is —

The late crisis was *not* caused by any deficiency of the circulating medium of India. If that medium had been much larger, for instance, if ten of the fifteen millions sterling of rupees deposited in the Treasuries had been put into circulation, and the paper currency had been doubled, the crisis would still have taken place. The circulation was rather redundant than deficient according to the existing habits and wants of the people. This is proved—1st, by the abundance of money at all the principal marts on the coast and in the interior, during the intervals between the annual exceptional demand arising from the peculiar state of the trade with Europe; and 2nd, by the universal high prices. The latter are a certain indication of a full state of the circulation, because, whatever may be the causes which create a tendency to a rise of price, they would be held in check if the circulating medium were deficient. The average price of bar gold, at Calcutta, per tolah of 22 carats fine, was Rs. 14-13-0 in 1853, and Rs. 14-13-4 in 1854. It was Rs. 14-13-0 in 1862, and Rs. 14-15-4 in 1863. At Bombay, the average price of gold bars (98 touch) was Rs. 15-14-3 in 1858, and Rs. 16-0-5 in 1863. It would seem from this that there has been a slight fall in the value of silver, measured in gold, in India. But the true comparison is that of gold and silver, taken together, with all other articles; and judging by this test, it must be admitted that, after making full allowance for other causes of the prevailing high prices, the precious metals are abundant and cheap in India.

19. The late crisis *was* caused by the unwillingness of the people of India to accept ordinary mercantile equivalents for the large additional value exported last year; and by the regulations of the Government of India, which give an advantage to silver, as an article of merchandize, in comparison with gold. The necessity for this great importation of silver was quite irrespective of the deficiency or redundancy of the Indian currency. It was occasioned merely by the fact that silver was the only article which the people of India would take in any quantity in exchange for their produce. Vast supplies of silver had been poured into India, under the operation of this exceptional and extrinsic cause. But, even if these supplies had been yet more abundant fresh importations must still have

taken place, because no other equivalent would be accepted for the Indian produce which the rest of the world desired to have.

20. If this is a true diagnosis of the malady, there can be no doubt about the remedy. India, and, through India,

The true remedy. the countries trading with her are suffering from the want of acceptable equivalents for the exportable produce which she furnishes in such richness and plenty. The strain upon silver will be relieved by every addition that can be made to the other articles in demand in India. Piece goods and yarn have become a great staple of the import trade. The increase in the importation of these has been arrested by the scarcity of cotton at Manchester, and the rise in the price of food in India; but, as these obstructions diminish, the trade is likely to be greatly developed. The native hand-loom system is collapsing in every part of India; and, although English weaving and spinning establishments in India are, to a certain extent, taking up the coarser qualities of the native article, which must always be made in this country the balance in favour of Manchester is overwhelming. Metal wares of English manufacture are getting possession of the market of India; and, in the form of utensils for cooking, eating, and drinking, they are passing from luxuries into necessities, as tea, coffee, and tobacco have done in England. Even Cheshire salt is supplied at prices which is obtaining for it a wide field of consumption in Northern India. But, as the use of the precious metals in India is already great and is rapidly increasing, and as India has no mines of her own, gold and silver must always be the great reserve of the import trade. To husband this reserve, therefore, and to make it answer the purpose of an article of import with as little disturbance as possible of the commercial and monetary economy of India or any other country, ought to be our chief object.

21. The first condition for the attainment of this end is, that both the pre-

Both the precious metals should be equally available as articles of import. cious metals should be equally available as articles of import.

Before the discovery of the gold fields of California, the annual production of silver was larger than that of gold. Since that, the case has been reversed. The annual production of silver is now supposed to be about ten millions sterling, and that of gold about twenty-five millions, or two and half times as much.

22. England has a Southern as well as an Eastern Empire, and the great staple of that Southern Empire is gold. Owing to the exclusion of gold from the Indian currency, the trade with Australia is chiefly carried on in this way:—The gold of Australia is sent to England, where it is employed in buying silver; and the silver is sent to India burdened with the charges of the double voyage and with the additional interest accrued during the prolonged period occupied by it. The cotton and other exports of India are charged with the extra expense arising from this circuitous mode of payment. Even a worse result is, that the trade cannot be carried on in a regular manner. The gold remains in the Bank of England until the Indian demand sets in, and then it is suddenly withdrawn to sweep the Continent of silver for transmission to India. In order to protect themselves, the Banks of England and France raise their rates of discount, and, by their so doing, and by the violent oscillations in the foreign exchanges, every description of business is deranged.

23. If, by an alteration in the regulations of the Indian Mints, gold were placed on the same footing as silver, the course of trade would be as follows:—The pastoral and mining population of Australia is supplied with clothes and other necessaries of civilised life from England. The proceeds of this trade would be invested in Australian gold and copper, and these would be sent direct to India to pay for the cotton and other produce exported from India to England. The shipping would benefit as much as the mercantile interest. We should hear less of vessels coming out to India in ballast for the sake of the homeward freight. Some ships would make the triangular voyage; others would return to Australia, with cargoes of sugar, rice, and other colonial produce. A regulated process the successive steps of which might be certainly calculated upon, would be substituted for the present fitful and desultory trade, and all parties concerned would profit by the change.

24. Hitherto the vacuum caused by the deficiency of imports has, for the most part, been filled with silver. Although this has occasioned much loss and inconvenience to India and Europe, there is a worse evil behind. The annual production of the silver mines is estimated at ten millions sterling. In the last nine years the silver imported into India alone, after deducting re-exports, has amounted to £89,633,792,* or within half a million of the entire estimated production of the whole world for the same period. There were two great reserves of silver, the currencies of the United States and France. Both these reserves have been exhausted. † The circulation of the United States has been avowedly placed upon the basis of a gold standard with a subsidiary silver token currency. In France, although the law remains unchanged, gold has been coined in vast quantities, and the only silver coins remaining in circulation are those which by wear and tear have become depreciated. The serious character of these facts will be apparent when it is remembered that the balance of trade in favor of India, and consequently her demand for silver, has been greatly increased by the revolution which has taken place in the cotton trade. Nobody can say in what proportions the supply of Manchester with cotton will ultimately be divided among different parts of the world, but it is certain that India will have a large share. It must also be remembered that other countries besides India stand in need of silver. Independently of the use made of it for domestic and artistic purposes in almost every part of the world, that metal still forms the currency of the greater part of Europe. It is also the standard of value in China, and performs the same service of adjusting the balance of trade for that great country as it does for India. The information at command here regarding China is very imperfect, but it is well known that, since the opening of the trade, the exports of tea and silk have greatly increased without any corres-

* The figures, for the first eight years, are taken from the Parliamentary Return dated the 16th March 1864, of the "value of bullion, gold and silver, imported into and exported from each Presidency of India, in each year, from 1800 to the latest date for which it can be given," and the figures of the last year are, from the Returns in Appendices Q, Q1, Q2, Q3 and Q4, obtained from the different Presidencies.

† European and American coins have been received in the three Indian Mints during the last ten years, from 1853 to 1863, to the value of £20,172,950; besides an unknown amount of foreign silver coin which had been converted into bar silver previously to its being tendered to the Indian Mints.

ponding demand having arisen for any article of foreign produce or manufacture; that cotton has been added to the exports of China; and that, notwithstanding the help given by the opium trade between India and China in the adjustment of the exchanges, a large annual balance has to be paid in silver. The population of China is twice that of India, and her vast productive powers are even less developed than those of India.

25. Even if silver were forthcoming in sufficient quantity, it could not be coined fast enough. Whatever may be

Impossibility of coining silver with sufficient speed.

the form in which silver reaches India, it must be converted into current rupees.

No description of credit based upon the existence of a certain amount of bullion or foreign coin suffices, because rupees are wanted to be sent into the interior to purchase produce. Although the power of the Bombay Mint has been much increased, it is still unable to cope with the large amounts of silver poured in by each packet. In fact, no Indian Mint could coin silver as fast as it is wanted, *i. e.*, as fast as it arrives. The quantity of bullion remaining uncoined in the three Indian Mints, during

Appendix B.

each month of 1862-63 and 1863-64, will be seen in the Appendix. The average monthly

amount remaining uncoined was £2,777.109, but this gives no idea of the real loss and inconvenience. At the season when current coin is most wanted for making purchases in the interior, the arrear of uncoined bullion is greatest. The average of the five months from December 1862 to April 1863 was £4,770,467; and even after the powers of the Bombay Mint, upon which the chief stress falls, had been greatly increased, the average arrear of the same months in 1863-64 was £3,035,092, notwithstanding that the Bombay Mint was worked by relays, day and night, without cessation, at serious risk to the machinery and great exhaustion of the persons employed. After all the pains and cost which had been bestowed upon providing these large sums and sending them to India, they were unavailable for use, because silver is so bulky compared with its value, as to be incapable of being converted into coin with sufficient speed to meet the wants of India. Great exertions were made at the London Mint to meet the increased demand for coin consequent on the gold discoveries, but if the metal to be coined had been silver instead of gold, the officers of the Mint would have been utterly unable to cope with the exigency.

26. It is impossible to predicate the consequences of a real deficiency in

Probable consequences of a deficiency of silver.

the supply of silver for adjusting the balance of the Indian trade. So much is certain, that the commercial crisis through which

we have just passed would be greatly aggravated. The facts to which I have adverted show that we are not dealing with a speculative or contingent danger. The usual annual demand for the means of paying for produce from the interior will recur next November; and if, as there is reason to expect, the value of the produce will be increased, while the available equivalents for it will be diminished, owing to the exhaustion of the reserve of silver in Europe, the disturbance of the economical system of India and Europe in 1864-65 will exceed that of 1863-64, as much as the crisis of 1863-64 surpassed that of 1862-63. A worse access of the disease is impending, and, if there be a remedy, it ought to be applied without delay.

27. I have already said that the most effectual remedy is to put gold on the same footing as silver as an article of import; and this can be done only by restoring gold to its place in the currency.

Gold should be restored to its place in the currency.

Although gold has been demonetised by the Government of India, it is held by the people of India in the same esteem, in relation to silver, as it is by the people of every other country in the world. Its superior advantages may be summed up in the fact that it contains large value in small compass. This makes it portable, allows of its being easily secured, facilitates its coinage, and diminishes its wastage. Although the public interests are vitally concerned in the proper management of the finances, we must not measure this question only by the wants of the Government. In silver £100,000 weighs $11\frac{1}{10}$ tons; in gold only $15\frac{3}{4}$ cwt. In silver, sums of money have to be counted by rupees or two-shilling pieces; in gold, by sovereigns or twenty shilling pieces. It is difficult to conceive the aggregate loss and inconvenience when these circumstances are applied to the greatly augmented number and amount of transactions compared with former times. Merely in making the remittances which the present state of the trade and industrial development of India requires, the additional expense must be very great. The most serious inconvenience of all, perhaps, is that the nature of the coinage does not allow of money being carried on the person for current use. Twenty sovereigns may be taken in the pocket, but two hundred rupees would be an intolerable burden. A book might be written on the obstacles which this state of things opposes to social progress. In a country like India, where it is particularly desirable to facilitate the intercourse between different classes of the community, the want of a convenient medium of exchange is especially objectionable.

28. In the progress of improvement, nations advance, by successive steps, from the rude instruments of exchange of primitive times, to the use of silver and gold money; and, at last, they attain to paper as the representative of gold. India had arrived at the gold period. Without going back to the history of former time, gold Pagodas and Fanams formed the bulk of the circulation of the South of India within the memory of persons still living; and, in the North of India, although the gold mohur was overvalued with reference to silver, its superior convenience obtained for it a considerable circulation. The trade of India with the countries beyond its North-Western frontier has always been carried on by means of gold coins of various kinds. Much interesting information relating to this part of the subject will be found in Mr. McLeod's and Mr. Melvill's papers in the Appendix.

Appendices L. and O.

29. The action of the Government upon this state of thing was, first to exclude gold from the circulation, and then to introduce a paper currency based upon silver. The result is that India has attained the last step *per saltum*, with the omission of the one which ought to have preceded it. Retrogression has been followed by irregular advance.

30. The paper currency has been attended with a fair measure of success. The note circulation already amounts to upwards of six millions sterling, of which rather more than three millions has been invested in Government Securities. The time was come for furnishing this great accommodation to the Europeans and to the Native mercantile classes in towns; and as the people become educated to the use of paper money, it will gradually answer

the objects intended by it. The currency circles have been extended to the rest of India, and a more popular character ought now to be given to the system by issuing five-rupee notes, as was originally intended.

31. But the people of India have never acquiesced in the exclusion of gold from the currency, nor have they accepted paper as a substitute for it. The plan of locking up reserves of the precious metals in strong rooms and representing them by convertible paper, belongs to an advanced stage of civilization. The great majority of the people of India must have intrinsic value in their hands before they are convinced that payment has been made to them. This habit is founded upon the experience of ages. Promises to pay are rendered of no effect by bad faith or revolution; bonds and notes are destroyed by damp or eaten by insects; but gold and silver survive every change and re-appear to be enjoyed in better times. As between gold and silver, the preference is decidedly in favor of gold, which, having large value in small bulk, offers most of the advantages of a paper currency together with the security derived from intrinsic value. Since the improvement of circumstances of the people arising from the great increase in the demand for their exportable produce, there has been a corresponding increase on their part in the demand for gold. It will be seen from the

Appendices Q, Q₁, Q₂, Q₃, and Q₄. Returns in the appendix furnished from the three Indian Presidencies and British Burmah, that after deducting re-exports, gold to the value of £25,140,768 has been imported into India since the 1st May 1860, besides what was brought by land across the North-West frontier, and besides the large aggregate amount chiefly in sovereigns, brought back by the labourers who annually take service in the Coffee Plantations in Ceylon, and by the emigrants returned from the Mauritius; and that importations have been according to a continually ascending scale. In 1860-61 the value of the gold introduced into India by sea was £4,242,441; in 1861-62 it was £5,200,432; in 1862-63, £6,878,130; and in 1863-64, £8,819,765.*

32. The explanation of this is that the people invest their new wealth in what they like best. In some favored cotton districts, gold bangles have become almost as common as silver bangles were before. Although gold is not available as a legal tender in payment of debts and taxes in the British dominions in India, the people in some parts of India have endeavoured to remedy the defects of the present inconvenient silver currency by circulating gold bars authenticated by the stamp of Bombay Banks. This rude attempt to organize an ingot currency in the face of every discouragement, proves the determination of the people to have gold, and shows that the Government would be cordially seconded by them in any attempt to introduce a gold currency on a sound footing. They would then have what they most desire,—absolute intrinsic value in a condensed form, authenticated by the impress of the State, and receivable by law in payment of every obligation.

33. A still more striking instance is that gold coins in such request, that *real* gold mohurs, nearly of standard value, are habitually made by forgers,

* The figures for the first three years have been taken from the Parliamentary Return, and for the last year from the Return in Appendix No 2, page . It will be seen from the last-mentioned Return, that while silver was re-exported in 1863-64, in the proportion of about 1 to 4 of the imports, gold was re-exported only in the proportion of about 1 to 23. There can be no doubt that gold has already released for circulation a large amount of hoarded silver.

chiefly to secure the premium at which they sell. The details of four such cases will be found in the Appendix. One of these establishments, at Jugadree, a flourishing mart in the Ambala Division, was on the scale of a Mint, and the gold mohurs manufactured there have an extensive circulation in the protected Sikh and Hill States and elsewhere.

Appendix S.

34. Many other proofs might be adduced of the popularity of a gold coinage in India. The Native State of Jeypore has long enjoyed a reputation for the purity of its coins; and Jeypore gold mohurs, which were formerly seldom seen, have of late years obtained an extensive circulation. In the Punjab the use of gold as a medium of exchange has greatly increased of late years. In the Sikh time it was chiefly procured from Russia through Kabul; but, to use Mr. Melvill's words, "the facilities of communication with Calcutta and Bombay, which are freely supplied from Europe and Australia, have given the precedence to those markets in the supply of gold." Mr. McLeod reports that the sovereign is now the gold coin most familiar to the people of the Punjab, "being by far the most abundant and almost the only one now employed systematically for equalising the exchange." The prevailing opinion at the other extremity of the empire in British Burmah will be seen from the papers in the Appendix (O and P) from two gentlemen of experience and ability who have been much engaged in mercantile pursuits.

Appendix O.

35. But the most decisive example of all will be found in the Madras correspondence in the Appendix. Owing to the large number of sovereigns introduced into the districts of Tanjore, Tinnevely, and Madura, partly received in payment for rice exported to Ceylon, and partly the earnings of laborers who had returned from Ceylon and the Mauritius, current silver money became so scarce in 1858, that it was difficult for the landowners to pay the revenue due by them. The Government of Madras, therefore, authorised the receipt of sovereigns at the Tanjore Treasury at 10 rupees each, and afterwards directed that they should be paid at the same rate to such persons as might be willing to receive them. Although this proceeding was overruled by the Government of India, it had gone far enough to prove that a gold currency, based upon the sovereign at 10 rupees, would rapidly have taken the place of the silver currency, if the Supreme Government had not interfered to prevent it. The unissued coins were sent to Madras to the number of 10,370 sovereigns and 1,865 half-sovereigns, where they were sold at a profit of Rs. 2,168-12-7 compared with the rate at which they had been received, being an average premium of three annas one pie on each sovereign. The Australian sovereigns, although more valuable than the English to the extent of the silver alloy they contain, sold on an average three farthings each less.

Appendices V to QQ.

36. The determination of the people of India to have gold, justifies Lord Liverpool's opinion that "in very rich countries, where great and extensive commerce is carried on, gold is the proper metal of which the principal measure of property and instrument of commerce should be made. In such countries, gold will, in practice, become the principal measure of property and the instrument of commerce, with the general consent of the people, not only without the support of law, but in spite of almost any law

that may be enacted to the contrary; for the principal purchases and exchanges cannot there be made in coins of a less valuable metal."

37. It remains to be considered how this great desideratum can best be attained.

38. Act XIX of 1861, under the authority of which the Government paper

The plan of issuing notes in certain currency was established, contains a provision proportion against gold. that notes not exceeding one-fourth of the total amount of issues represented by coin or bullion, may be issued in exchange for gold coin of full weight of the Government of India, or for foreign gold coin or gold bullion computed at rates to be fixed by the Governor General in Council, and not to be altered without six months' previous notice. Mr. Cassels remarks that "this important amendment has, for some inscrutable reason, or by mere oversight, been allowed to remain ever since a dead letter," and the Governor of Bombay proposes that it should now be acted upon. "The effect of this," Sir B. Frere observes, "would be to substitute a considerable portion of gold for the silver which is now imported into India; and in proportion to such substitution, to relieve the inconvenience which is now felt by the absolute scarcity of silver in Europe. It would also tend to expand the use of Government Currency Notes, and to set free a corresponding quantity of silver which is now absorbed in various ways in remote parts of the country, and which disappears from the circulation of our great commercial marts."

This provision was borrowed from the parallel case of the Bank of England, which was permitted by the Act of 1844 to issue notes in exchange for a certain proportion of silver.

This was objected to by Mr. Wilson and other high authorities, who considered that the principle of convertibility on demand required that the Bank of England should be allowed to hold in its coffers that metal only in which payment of its notes could be demanded, and that the permission to retain silver as a portion of the reserve introduced a mercantile element into the management of the Issue Department, and was inconsistent with the theory on which the Act was founded.

39. The object of holding silver in the Issue Department of the Bank of England was to facilitate the adjustment of the exchanges with France; but, after the change in the relative prices of gold and silver caused by the gold discoveries and the increased demand for silver for transmission to the East, the nearly balanced system of alternative standard in France oscillated in the direction of gold, and it became no longer advantageous for the Bank of England to hold silver in the Issue Department. Since August 1853 that item has disappeared from its weekly account; and it only re-appeared for a few months at the end of November 1860, under an arrangement adopted for the convenience of the Bank of France.

The corresponding provision permitting the Currency Department of the Government of India to receive a certain proportion of gold, has never been acted upon for the following reasons:—

Because, as stated by Mr. Wilson, it is inconsistent with the principle of a Government paper currency. That paper is payable only in the current coin of the country; and its convertibility in times of political distrust or mercantile panic, might be seriously endangered, if any of the uninvested deposits were held in gold which could not be tendered in payment of

the notes. The sale of gold for current silver coin would be a precarious resource, for times of panic are exactly the times when money is not to be had.

40. Besides furnishing a more convenient medium of exchange, a properly regulated paper currency releases, for productive purposes, a portion of the capital of the country which had been employed, without yielding interest, in providing a less perfect medium of exchange; and, with this object, such portion of the deposits as is not likely to be required to meet demands for coin, ought to be invested in Government Securities. The effect, therefore, of keeping any portion of the deposits in a form which is not available for the payment of the notes, is to interfere to the same extent with the beneficial operation of the paper currency system. The full amount required to maintain the convertibility of the notes has to be kept in current coin, in addition to the uncurrent coin or bullion. In other words, the latter is pure loss.

41. There are other practical difficulties which I will describe in the words of Mr. George Arbuthnot, of Her Majesty's Treasury, to whose mature experience and excellent judgment in this difficult class of subjects, I have often been deeply indebted. "It would be easy to imagine cases in which the Government of India would be placed in great difficulty in attempting to manage, on its own immediate responsibility and discretion, the issue of notes in exchange for a limited amount of gold coin or bullion. The advertisement of a price would be an invitation to parties to tender gold; but individuals, not acting in concert, could not ascertain the quantity which it would be safe for them to remit. When it arrived in India, the limit might have been reached to which the proportion of gold is restricted by the currency law; and confusion, instead of facilities, in the adjustment of exchanges, would be the result. Again, the sale of gold when its price might be higher than that at which it was received into the currency chest, could hardly be undertaken by Government with a view to profit. However skillfully such transactions might be conducted, it is hardly to be conceived that any Government official could so conduct them as to avoid the risk of censure by those whose interests might be affected by the disturbance of prices occasioned by the sales; and the probability is, that no official would have sufficient experience of business of this nature to enable him to manage it with safety."

42. And, after all this difficulty and hazard, the end attained would not be "to substitute a considerable proportion of gold for the silver which is now imported into India," nor to "set free a corresponding quantity of silver which is now absorbed in various ways in remote parts of the country," as supposed by the Governor of Bombay, but to lock up a certain quantity of gold in an unproductive state, without any diminution of the current silver coin which must be kept in deposit to provide for the payment of the notes.

Complication arising from the practice of issuing notes against silver bullion.

43. This seems the proper place for calling attention to the extraordinary and dangerous complication which has arisen from the adoption into the Indian Paper Currency system of the mercantile principle of issuing notes in exchange for bullion as well as coin, which was retained in England by the Act of 1844. I am speaking now of silver bullion, which by the 9th Section of the Act of the Government of India, No. XIX of 1861, must be received in exchange for notes to any extent to which it

may be offered, with a proviso that, in places where there is no Mint, it shall be optional to receive coin only, in exchange for notes. This option has been acted upon in the case of the currency circles recently established in the interior, by directing that notes shall be issued only in exchange for coin.

44. The Indian Mints have always been open for the receipt of silver bullion; and, while the amounts tendered for coinage were moderate, and the Mint Certificates were payable at thirty, and afterwards at twenty days' sight, no inconvenience was felt.

45. But in July 1861, the paper currency system was introduced, one of the conditions of which was that notes invested with the character of legal tender might be obtained at once in exchange for silver bullion.

46. This made it necessary that the Mint Certificates also should be payable on demand; for, otherwise, the bullion would all have been sent to the Currency Department to be exchanged for notes, and the notes would have been immediately returned to be exchanged for coin. The result of this would have been, that the Currency Department would have become filled with bullion and emptied of coin; in other words, that Department would have had to suspend cash payments and declare itself insolvent.

47. The obligation to pay the Mint Certificates upon demand, involved the Government in a formidable responsibility. The entire financial machinery had to be strained to meet the vast amounts of bullion poured in to pay for the enormously increased exports. For some months, while the usual receipts from opium were suspended and our reserve at Calcutta was locked up by the investments made by the Bank of Bengal on its own account, under its agreement with the Government, the anxiety

Appendix RR.

was very great. It will be seen from the Return in the Appendix that £5,310,550 was remitted in aid of the Bombay Treasury, between the 1st May 1862 and the 20th May 1864. Since the beginning of last April we have had to remit £1,220,000 to Bombay, besides £460,000 in coin obtained from the Currency Department in exchange for bullion.

48. In order to keep the Bombay Mint at work at the rate of £40,000 a day it is necessary that there should be £940,000 of bullion in its several departments, and seventeen days intervene between the receipt of bullion and its issue as coin. If, therefore, there was little or no bullion in the Mint, and a large amount was tendered for coinage, at least £600,000 would have to be paid before the Mint could deliver any new coin into the Treasury. That this is not an improbable contingency is evident from the fact that, during the last three years, the silver bullion tendered

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monthly has ranged from £374 to £2,295,552, and that, in the same month in the three years, the amounts have varied from £577,709 to £2,295,554, and from £374 to £437,481.

49. The same state of things prevails at Calcutta and Madras. "If the balance of bullion in the Mint," the Master of the Mint at Calcutta reports, "is reduced to a minimum, as is now being done, it will be necessary, in the case of any sudden influx of silver, for the Treasury to be prepared to meet Mint Certificates at the rate of four lakhs a day, for twenty days, without counting on any remittances from the Mint."

50. All idea of husbauding the public balances for the public benefit must be cast aside, if they are to be answerable for any amounts of bullion which the new necessities of the Indian trade may bring to our shores. So large and unexpected are the demands, that, concurring, as they may do, with other exigencies, we may at any time be thrown by them into a state of temporary insolvency. Merchants are entitled to have their bullion converted into coin at the earliest possible period, but they cannot expect advances to be made upon it out of the public purse.

51. Although we have been forced, for a time, to pay the Mint Certificates on demand, owing to the complication already explained connected with the paper currency, we have never conceded the principle which regulates every Mint in the world—that of being liable for the value of the bullion only after it has actually been made into coin. We ought, therefore, to adopt the true basis of a paper currency, by issuing notes only in exchange for coin; and we shall then be able to return to the former practice of granting, as fast as the bullion can be assayed, Mint Certificates payable after an interval fixed with reference to the average time occupied in coining.

52. Returns will be found in the Appendix, showing—

Appendix B. 1st.—The total amount of silver bullion received at each of the three Indian Mints, in each month, from 1st May 1862 to the 30th April 1864.

2ndly.—The total amount coined in each month.

3rdly.—The balance remaining uncoined at the end of each month.

4thly.—The silver bullion tendered for coinage to the Bombay Mint in each month from the 1st May 1861 to the 30th April 1864; and,

Appendix B 3. 5thly.—The remittances made from the 1st May 1862 to the 30th April 1864 to reinforce the Government balance at Bombay to meet the Mint Certificates and the Secretary of State's bills.

Appendix B E. 53. Previously to the Act of the Government of India, No. XVII of 1835, by which an uniform coinage was established for the British dominions in India, the Gold Mohur of Bengal, and the Star Pagoda and other gold coins of Madras and Bombay were a legal tender, being valued relatively to silver in the proportion of one to fifteen.

Past proceedings in reference to the gold coinage in India. 54. By the Act of 1835, and a contemporary Resolution of the Government of India, gold coins, representing, respectively, 5, 10, 15, and 30 Rupees, were directed to be coined at the Indian Mints; and, although they were not to be a legal tender, they were to be received "and issued" at the public treasuries at rates to be fixed, from time to time, by proclamation.

55. The rates were those denoted by the names of the coins; but it was afterwards perceived that the issue of these coins at a prescribed rate was inconsistent with the fact that they were not a legal tender, and a pro-

clamation* of January 1841, authorized them to be freely received at the previous rate of fifteen to one, and "to be disposed of as might be ordered by the Accountant General or the Accountant of the Presidency."

56. In May 1844, in order to encourage the coining of gold, the reduction of the seignorage on gold bullion tendered for coinage from two to one per cent., which had previously taken place at Calcutta in November 1837, was extended to the Mints at Madras and Bombay; and it was declared that persons delivering in gold for coinage were entitled, as a matter of right, to have gold coins returned to them. The seignorage on silver coins remained, as before, at two per cent.

57. In January 1850, the Sub-treasurer at Calcutta reported that the market price of the gold coin had gradually fallen to the price at which the Government received that coin from the public, and that there appeared to be a tendency to a further fall. This was the first notice of the effect upon the currency of India of the increased production of gold in California; but the Government did not at that time consider it necessary to direct any alteration in the terms on which gold coin was receivable into the public treasuries. After this came the discovery of gold in New South Wales; and the Government of India was alarmed by rumours that arrangements were in progress for forming connexions with Australia for the purpose of bringing up gold, by a direct line of steam communication, to take advantage of the proclamation by which gold was receivable at the rate of fifteen to one compared with silver of equal weight and fineness.

58. In order to avoid the embarrassment of an excessive stock of coin which was not re-issuable and could not be disposed of except at a loss, notice was given, on the 22nd of December 1852, that gold coin would no longer be received in the public treasuries.

59. The course which ought now to be adopted, is to retrace our steps, and to declare gold to be a legal tender in addition to silver, at a rate carefully calculated with reference to the relative value of the two metals.

60. To the adoption of this course, Mr. Wilson objected that "a contract to pay a given sum of money is nothing more nor less than a contract to deliver a given weight of that metal which is the standard at the time the contract is made, and that to alter or vary the standard, and to adopt another metal because it is cheaper, is simply to enable the debtor to break faith with the creditor."

This argument has been ably and successfully answered by Sir W. Mansfield, in the 3rd and 4th Chapters of his Minute. He shows that money is the measure and representative of *value*; and that, whatever may be the current coin in which contracts are expressed, the

* "No gold coin will henceforward be a legal tender of payment in any of the territories of the East India Company; but the gold pieces to be hereafter coined will circulate at whatever rate of value relatively to the legal silver currency of the country they may bear to currency. The Governor General in Council will, from time to time, fix the rate by proclamation in the *Calcutta Gazette*, at which they shall be received and issued at the public treasuries, in lieu of the legal silver currency of British India. Until further orders that rate will be as the names of the tokens denote—the Gold Mohur, for 15 Rupees; the 5-Rupee piece, for 5 Rupees; the 10-Rupee piece, for 10 Rupees; and the 30-Rupee piece, for 30 Rupees."—*Letter from the Government of India, to the Court of Directors, 24th of June 1835.*

intention is that the creditor should receive *value*, without depreciation, in any form which may be most convenient to the community to which he belongs; otherwise, the State would not be able to change its legal tender or expression of value, the effect of which would be, under different circumstances, to do real injustice to debtors or creditors. If a change of value is taking place by which an ounce of silver will, at some future time, be worth more than an ounce of silver now is, we ought not to increase the value of debts by declaring that, for all time to come, they shall be paid in coins constantly gaining a higher value than was originally attributed to them; and the reverse of this would be the case if silver was in a course of depreciation. Including the Local Revenue, the Government of India is annually a creditor to the extent of nearly fifty millions sterling, more than two-fifths of which depend upon permanent obligations expressed in the legal silver money of the time, or upon obligations similarly expressed for long terms of years. The same Government is also a debtor to the extent of rather more than twice its annual revenue. According to this view, the State is chiefly interested in maintaining the rights of creditors. But, according to the broad and just view, the real concern of the State is to maintain the integrity of all contracts, public and private, and to promote general confidence and good faith, by so regulating the circulating medium, that, as far as possible, no enhancement or depreciation of value shall take place to the advantage of debtor or creditor.

61. Closely connected with this, is the question of the double standard of value.
The question of the double standard.

The popular sentiment coincides with the opinion of Mr. Locke, Mr. Harris, and Lord Liverpool, that the principal measure of property should be made of one metal only.

And, in fact, although it may be necessary for a time that two metals should be legal tender, only one metal can practically be the standard of value.

62. However accurately the value of two metals may be adjusted to each other, the vicissitudes of production, the necessities of commerce, and the convenience of daily life, ever cause slight variations between the market value of the two, and the cheaper metal becomes the principal medium of exchange and the standard of value.

63. It would seem to be a result of general experience, that nations must pass through this stage before they arrive at a satisfactory state of their currency.

64. British currency went through a series of alternations between gold and silver until a gold standard, with a subsidiary silver token coinage was finally established in 1816 by the 56, George III. C. 68.

65. The experience thus acquired was employed in 1838 and the following years in reforming the metallic money of the British Colonies, which had fallen into a confused and unsatisfactory state, and peremptorily required the interference of the Government. This was done by rating the foreign gold and silver coins current in the different Colonies at their proper relative value to sterling money, and making them legal tender in common with sterling money. The discoveries of gold in California followed after an interval of some years, and silver then ceased to cir-

culate, except as tokens for the fractional parts of the pound sterling, and the British sovereign was established as the sole standard. The first of these changes was an administrative operation. The second was a natural result. They were both eminently advantageous. The whole process is

described in the extract in the Appendix from Memorandum by Mr. George Arbuthnot, dated in August 1858. It will be seen that he speaks of the proceedings for the "concurrent use of the British with the foreign coins at the rates assigned to them," as having been "attended with perfect success;" and says that the subsequent transition from a silver to a gold standard "was effected without disturbing contracts, and without detriment, therefore, to the community at large."

66. Our example was followed by the United States. By the law of 1849, golden dollars of a certain weight and fineness were legally declared to be equal to the silver dollar. In 1853, the old full weight silver coin having been in great part absorbed as a commodity of trade, and the national reserves now consisting almost entirely of gold, the intrinsic value of the silver coins was reduced, (the dollar from 412½ grains to 384 grains,) so as to make them tokens, like the English silver coins, limiting their tender to five dollars, and thus adopting a single standard of gold.

67. A similar change has taken place in France. Since the decree of Napoleon in 1801, a double legal tender has prevailed. From 1801 to 1850, gold had a tendency to rise, and it consequently disappeared from the ordinary circulation and commanded a premium; but the price having fallen somewhat below the fixed rates since the discoveries in California and Australia, the standard currency of the country and its reserves now consist of gold, and the silver coin, which has not been exported, in consequence of its having been reduced by wear below its full value, is fast passing into the state of a subsidiary token coinage.*

68. As in the British Colonies, so in the United States and France, the alternative legal tender caused no inconvenience in measuring values; and the

* Since this was written, I have seen from the Newspapers that the French Government has determined to reduce the half and quarter francs from 900 parts of pure silver and 100 alloy to 835 pure and 165 alloy; in other words, to make them avowedly tokens, which they had really already become by wear. The five franc pieces of the coinage of the years till 1830 were always better than standard, but from 1844 to the present time they have been below their standard, and the coins of the present day are worse than any. The following is an abstract Statement of five franc pieces received into the Calcutta Mint during 1863-64 :-

Weight in Tola's.	Assay.	Nett value in	Nett value at	Loss to importers from difference between actual assays and French standard.
		Rupees issued in Mint Certificate.	French standard 9 0 Touch, or 4 dwts. in the Pound Troy, worse than Indian standard	
Rs. A. P.		Rs. A. P.	Rs. A. P.	Rs. A. P.
57,98,291 9 0	4 dwts. worse.	55,73,318 1 2	55,73,318 1 2	Nil.
40,40,187 14 0	4½ do.	38,74,439 2 8	38,83,423 9 8	8,939 6 9
11,933 0 0	5 do.	11,413 14 5	11,469 5 11	52 7 6
13,203 2 0	5½ do.	12,607 7 9	12,695 10 5	88 2 8
98,63,620 9 0	...	94,71,781 10 0	94,80,911 10 11	9,130 0 11

accession of gold, as the sole standard of value, did not affect, in any perceptible manner, prices, obligations, or interests of any kind whatever.

69. It will be seen from the papers describing the currency of Ceylon, which form the last number of the Appendix that Ceylon, which is an integral part of India, is considered to owe to its double standard its comparative immunity from the severe monetary crisis through which India has lately passed.

I have no further argument to urge for the adoption of gold in British India as an auxiliary currency. Monetary science is eminently experimental; and if the point has not been established by the examples which have been adduced, no *à priori* reasoning would suffice.

70. If the expediency and safety of the first step has been proved, I do not care to follow the process through its subsequent stages. The change should, of course, take place with the utmost attention to the habits and feelings of the people, as recommended by the Chambers of Commerce. What I propose is, not an immediate or entire substitution of gold for silver money, but the gradual addition of gold money to the existing silver money. Both metals are held in esteem by the people on account of their intrinsic value, and for a long time they would have a concurrent circulation. The first effect of the admission of gold into the currency would be to raise the value of gold, because it would release an equivalent amount of silver. In other words, a tendency would be created to lower the value of silver, and, so far, an advantage would be given to silver in maintaining its place in the circulation. The ultimate effect would, probably, be that, partly from a slight additional fall in the price of gold in India arising from causes which will be hereafter more fully explained, and partly from the superior convenience of that metal in making the larger payments, the currency and reserves of the country would become gradually filled with gold, and the time would then arrive for considering the propriety of converting the silver coinage into a subsidiary token coinage. Perhaps, as in France, the silver coinage, not being renewed, and becoming by wear less than its full nominal value, would of itself subside into a token coinage, and the people of India would be gradually educated to receive such a coinage as representing a value which it did not intrinsically possess.

71. Commerce would be greatly facilitated by the establishment of one uniform standard medium of exchange throughout the British Empire. This is an advantage of extensive empire, including dependencies in different parts of the world, which ought to be utilised for the public benefit. A similar advantage was formerly derived from the general currency which the Spanish dollar obtained. Owing to its superior convenience and other causes, the British sovereign would, if fair play were given to it, come into more extensive use than the Spanish dollar ever did.

72. One of the first results of the discovery of the Californian gold fields was, that the Mediterranean and Levant were swept of dollars for transmission to the East, and sovereigns were substituted for them. After the discovery of the Australian gold fields, a branch of the Royal Mint was established at Sydney for the coinage of gold in accordance with the standard of weight

and fineness of the currency of the realm. The superscription, however, was different, and the coin was made a legal tender only in the Australian Colonies. Its currency has since been extended by Royal Proclamation to other possessions of the Crown, *viz.*, Mauritius, Ceylon, and Hong-Kong.

73. In May 1862, a Select Committee of the House of Commons was appointed to consider and report on the expediency of legalising the circulation in the United Kingdom of the sovereigns coined at the branch of the Royal Mint at Sydney. The Committee reported that, although the sovereigns coined at the Sydney Mint might "be considered perfect as regards fineness and weight," and were, in fact, more valuable than the Tower Hill sovereigns, because, whatever silver there was in the gold found in Australia, it remained in the coin as part of the alloy, the sovereign made at the Royal Mint had a preference over the Sydney sovereign wherever both were in circulation; that this was entirely due to the fact that the Sydney sovereign was current in Australia alone and in a few of Her Majesty's distant possessions, while the English sovereign had a circulation throughout the realm; and that "the inconvenience resulting from this limit on the circulation of the Australian sovereign is particularly experienced in the large trade carried on between Australia and our possessions of Ceylon and Mauritius, where this coin has been declared current by Royal Proclamation. In this commerce with our possessions, and also with India, Manilla, Java, and other countries, into which Australian gold coin largely enters, there is no doubt but that the Imperial sovereign is more highly valued than the sovereign issued at the Sydney Mint." The Committee, therefore, recommended—

"1st.—That gold coin should be issued from the Branch Mint at Sydney, having currency in all parts of the British dominions where gold coin minted in London is current.

"2nd.—That the coin struck at the Sydney Mint should have, as nearly as possible, the same alloy, and the same quality of execution and durability as that struck at the Royal Mint in London.

"3rd.—That the coin should also have a Mint mark sufficient to indicate at least to bankers and others, the Mint whence it issued.

"4th.—That an adequate Mint charge or seignorage should continue to be levied, and that the Imperial Government should stipulate for its being kept at such an amount as to prevent any undue inducement to the importation into the United Kingdom, of gold in coin rather than in bars.

"5th.—That arrangements should be made for withdrawing from circulation, as speedily as possible, the existing Sydney gold coinage.

"6th.—That the charge for the Branch Mint should be provided for by permanent appropriation by the Legislature of New South Wales, rather than by an annual vote."

74. These recommendations were accepted by Her Majesty's Government, and a Treasury Minute was recorded on the 22nd of June last, stating that "My Lords are satisfied with the disposition shown by the Legislature of New South Wales to pass an Act for this purpose, the Bill introduced this year having been withdrawn only on account of a technical objection not affecting the principle of the measure; and they are willing

to submit a Bill to Parliament, as proposed by the Governor of New South Wales, conditionally, enabling Her Majesty to declare by proclamation, coins to be issued from the Branch Mints of New South Wales corresponding in the essential particulars regarding the standard of value and denomination with those issued from the Royal Mint of London, a legal tender of payment in the United Kingdom. The effect of such an enactment will be to enable Her Majesty to give currency to the Sydney gold coins in all parts of Her dominions in which gold coins issued from the Royal Mint in London are a legal tender."

75. The Minute then states that this measure must be guarded by the precautions recommended by the Committee, of which the imposition of an adequate Mint charge is the one of most immediate importance. This charge is proposed to be fixed at 3*d.* an ounce of gold coin, which is the estimated cost of coinage on all gold returned in coin to the importer; and it is explained that this is to be over and above, 1st, the charge made at the Sydney Mint for prompt returns, whether in coin or bar gold, analogous to the charge of 1½*d.* allowed by law at the Bank of England for immediate returns in exchange for bullion; 2nd, the charge, if any, which may be incurred for assay and refining; 3rd, the duty, if any, imposed, by Colonial Act, on gold imported into the Mint as the equivalent of an export Customs duty.

76. The 2nd and 3rd recommendations, the Treasury Minute proceeds, will be the subject for future consideration when the necessary statutory powers shall have been obtained; but, although identity in quality of execution and durability between the coin struck at the Sydney Mint and that struck at the Royal Mint of London, may properly be kept in view as an object of ultimate attainment, it would not be expedient to lay down any positive regulation regarding the character of the alloy to be employed.

77. It will thus be seen that the only external obstacle to the supply of India with the standard gold coin of the British Empire is about to be removed. Australia is the greatest existing source of supply of gold; and both from proximity and from the course of trade, she ought to be bound up with India in a peculiar relation.* The perfected, authenticated produce of the Australian gold fields ought to have the same advantage as the Spanish dollars coined at the mine's mouth had in former days. But, instead of this, it must either be sent to England to be re-coined and forwarded to India charged with all the expenses of this circuitous route, or, if sent direct to India, it must be disposed of at a loss compared with

* There are political and moral, as well as economical relations involved in the connection between Australia and India which were alluded to by me in a letter published in the *Times* on this subject in February 1850. "England has a southern as well as eastern empire. One empire is Christian, the other is Heathen. One is young, self-governed, full of vitality composed of men of our own nation and language; the other is the oldest existing community in the world, abounding in latent resources, but helpless, dependent, and requiring the aid of a more energetic race to rise to a higher state of social and moral existence. That these two empires should be closely connected with each other, as well as with the metropolitan country greatly concerns the interests of all. The tropical productions of India meet with a ready sale in Australia, but the great staple of Australia is excluded by Mint Regulations from India. Australian men would come in the wake of Australian gold, and another branch of the Anglo-Saxon family, singularly adapted for the work by experience and genius, would cooperate with us in the organization of Indian industry."

the British sovereign. For the future, there is to be only one sovereign, distinguished merely as to its place of manufacture by a Mint mark which will require a magnifying glass to be detected.

78. The Committee abstained from entering into the question "whether the Mint would have been better placed at Melbourne than at Sydney; or if a Mint should not also be established at Melbourne;" but in another part of their Report, they gave the following indication of what their decision would have been:—"the character of a coinage, whether produced at one or at many establishments, must depend on the honesty and integrity of those charged with its superintendence, and there is no reason to doubt that, with a well-regulated establishment and proper control, Mints conducted for the advantage of the subject, and not for the exclusive benefit of the Crown, may usefully be established wherever there exists an extended market for bullion." The Treasury Minute contains the following reference to this part of the subject:—"My Lords would have been ready to have entered into this question if required to do so, as preliminary to any measure for declaring sovereigns and other gold money, coined in Australia, a legal tender of payment in the United Kingdom; but, as it has not been raised by the colonies immediately concerned, though ample time has been offered for its consideration since the publication of the report, their Lordships feel themselves warranted in passing it by, and applying themselves to the proposition now before them from the Colony of New South Wales."

India has no slight interest in this question. The precious metals are imported at a particular season of the year to meet the urgent necessities of trade. They are wanted in the form of coin, to be sent at once into the interior, to pay for produce; and every day's delay is a loss to the holder and an injury to trade. But, as the precious metals are received in vast quantities at a time, it is impossible that any Mint, however powerful, can convert them into coin as fast as they are required. One of the advantages of adopting the sovereign as the standard gold coin of India, will be that, as it is the sole standard coin of the rest of the British Empire, it may be imported ready for use; but this advantage will be in a great degree lost if the principal Australian gold field is unprovided with a Mint.

79. Major Ward, the Master of the Sydney Mint, wrote to me in February last,—“Your acceptance of our coin, or, as it then will be, the imperial sovereign, as a legal tender in India, would increase our work, and we could produce for your circulation alone some £4,000,000 sterling per annum; and if a Mint be established at Melbourne, three times that quantity.” This supposes that nearly the entire annual produce of the Australian gold fields would be coined and sent to India. Such, I believe, would be the case, if a Mint were established at Melbourne, and if legal restrictions existing in India and Australia were removed. The proximity of Australia makes that country the natural source of supply for the east, as California and Russia are for the west.

The produce of the Australian gold fields has of late years shown a decided tendency to fall off. Universal experience proves that, owing to the nicely balanced state of the market for the precious metals, they are not a fit subject for an export or import duty. The steady diminution of the gold supplied from the Victorian fields will be seen from the following

extract from the Report of the Registrar General of the Colony on the quantity of gold exported during the last twelve years:—

Year.	Ounces.	Value. £
1851	145,147	580,587
1852	2,724,933	10,899,733
1853	3,150,021	12,600,089
1854	2,392,065	9,568,262
1855	2,793,065	11,172,261
1856	2,985,669	11,942,783
1857	2,761,528	11,046,118
1858	2,528,188	10,112,752
1859	2,280,676	9,122,702
1860	2,156,661	8,626,642
1861	1,967,420	7,869,758
1862	1,658,285	6,685,192

And it appears from another source that during the first half of 1863 gold was exported only to the value of £3,298,936, which shows a still decreasing rate.

80. Assuming the basis of the change to be that the sovereign and half-

How the sovereign should be rated sovereign are to be made legal tender in reference to the rupee. India, the only remaining question is how they are to be rated in reference to the rupee.

Certain general principles may be confidently laid down.

81. The first and most essential of these is, that the rate fixed should be rather below than above the present price of gold. The danger to be avoided is an undue interference with existing contracts. If the rate were fixed too high, debts could be paid with a smaller value than that for which they had been contracted; silver would be practically demonetised; a large quantity of gold would be suddenly required to carry out the change; and the result apprehended by the Calcutta Chamber of Commerce would be realised, "of great derangement in the commerce and finance of India, and probably also in the money markets of Europe." The rest would right itself in time; but the fraud committed upon creditors would be irremediable, for, when contracts have once been interfered with by an alteration of the measure of value, there can for them be no return to the former standard. On the other hand, the worst that could happen from rating the sovereign too low, would be that the operation of the measure would be retarded; but no other harm would be done, and the object might still be attained by a revised rating in which the sovereign would be placed somewhat higher.

82. The sovereign must be rated, not with reference to its value in England, but solely with reference to the cost at which it can be obtained from the cheapest source of supply, that is, from Australia.

It is very desirable that the rate should, if possible, be so fixed as to avoid an inconvenient fraction. The countless repetition of the calculations involved in the existence of such a fraction would seriously detract from the advantages of the measure. For a long time the exchange between India and England has been so near two shillings for the rupee, that this has been fixed from year to year, for the adjustment of the accounts between Her Majesty's Indian and Home Governments. The same rate has been adopted in the financial accounts, and is extensively used in private transactions. The public mind is therefore already accustomed to this rate of con-

verting the rupee into sterling, and it is in itself the most convenient possible. It offers the following simple decimal proportion :—

	Rs.
£1.00=£1, or one sovereign	=10
50=10s., or half-sovereign	= 5

The Madras Fanam, which, not long ago, was the favourite coin of the south of India, was worth Rs. 5-6-6. When Mulraj was besieged in Mooltan, being short of silver to pay his troops, but having forty lakhs of Rupees hoarded in gold, he coined the whole of it into pieces which passed for one Rupee. These have since been in great request.

83. Sir C. Wood attached so much importance to the possibility of adopting a convenient mode of converting the sovereign into rupees, that, in a Despatch dated the 2nd of May 1861, he stated the question of the introduction of a gold currency into India as depending upon it—" I am not insensible to the possible advantage which might arise from the introduction of the sovereign as the current coin of India (as it is, I believe, in Ceylon); but at the present relative intrinsic value of gold and silver, no combination of Indian coins can express the value of the sovereign. If, by any change in the relative value of the two metals, a sovereign and 10 rupees were to become of equal intrinsic value, the sovereign might readily be introduced, and become the standard coin of India; but at present it can only be taken at its value as gold, and that value will vary from time to time, according to the demand at the moment for that metal."

84. The reform of the currency of the West India Colonies was much facilitated by what Mr. Arbuthnot calls "a fortunate coincidence of principle and convenience," *i.e.*, the rating of the Spanish and Mexican dollar for circulation at 50*d.* This valuation afforded a simple rule for the "conversion of the dollar into the denomination of British money, and it equally facilitated the conversion of British money into the decimal system of account founded on the dollar, as the half-penny represented the 100th part of that coin."

85. I am disposed to think that, although a sovereign and 10 rupees have not become of equal value, they have sufficiently approximated to allow of an auxiliary gold currency being successfully introduced at that relative valuation.

We have seen that, for the ordinary computations of public and private transactions, the sovereign and 10 rupees have actually been accepted as being of the same value.

A rupee contains 165 grains of fine silver, which at 5*s.* per oz. of standard silver is worth 1*s.* 10³/₁₀*d.* This was the official valuation of the rupee, according to the prices prevailing in the London market before the gold discoveries. In the years 1862 and 1863, the average price of bar silver in the London market was 5*s.* 1³/₄*d.*, at which rate the rupee is worth 1*s.* 10⁸/₁₀*d.*

86. But the real practical question is, not what the rupee is worth in London, but what it is worth at Calcutta. According to the calculation

Appendix TT.

contained in the valuable paper in the Appendix, entitled "Remarks on the importation of bullion into India with quotations," which has been kindly furnished to me by Mr. Dunlop, the Manager of the Calcutta Branch of the Agra Bank, 5*s.* 1³/₄*d.* per oz. cost in London gives the rupee at Calcutta at a cost

of 24·05*d.*, after computing freight, insurance, brokerage, etc., at 3½ per cent., and duly allowing for the Mint seignorage.

87. Mr. Dunlop elsewhere says—“If a gold currency were to be introduced into India, and the Calcutta Mint purchasing price was fixed at the same figure as that of the Bank of England, £3-17-9, or Rs. 38-14-0 per oz., or Rs. 14-9-3 per tolah, an importer from Australia would obtain his coin at a cost of 2*s.* 0 $\frac{7}{16}$ *d.* per rupee from Sydney, and 2*s.* 0 $\frac{9}{16}$ *d.* per rupee from Melbourne, whilst an importer from England would obtain his rupee at a cost of 2*s.* 0 $\frac{3}{8}$ *d.*

“The importers of coin, if the sovereign were accepted in India as a legal tender for 10 rupees, would obtain their rupee at 2*s.* 0 $\frac{1}{8}$ *d.* from London, and at 2*s.* 0 $\frac{7}{16}$ *d.* from Australia.

As the experience of practical men is of the highest value in such a question as this, I have inserted in the Appendix a letter from the Hon'ble Claude Brown, of the house of Jardine, Skinner & Co. The facts stated in this letter furnish reliable data; but Mr. Brown will judge, after reading this Minute, how far his inferences ought to be modified.

88. Australian sovereigns can be laid down in Calcutta at Rs. 10-2-6 each. The actual rates at which they were sold from the 6th of January 1859 to the 8th of June 1864, will be seen in the Appendix. They vary from Rs. 9-15 to

Appendix VV, Table III.
Rs. 10-10. The average of the year 1859 is Rs. 10-5-4½; of 1863 Rs. 10-3-5; and of the first six months of 1864, Rs. 10-1-4. The latest information I have is contained in the following extract from a letter from the Hon'ble Claude Brown, dated Calcutta, 28th of June—“The arrivals of gold in this market still continue so much in excess of demand that 22 carat fine is not saleable at better than Rs. 14-7 to Rs. 14-7-6, a price which would admit of the sovereign being turned out at the Mint at the required cost of 10 rupees.”

89. It will be seen from the interesting papers, which form the first number of the Appendix, that the rates at which the sovereign passes in Upper India scarcely exceed those which prevail at the Ports. This is explained by the fact that gold is so much easier of transport than silver, that its relative value to silver is rather less at Lahore than it is at Calcutta.* It will also be seen that everybody is agreed at Delhi, Lahore, and Umritsur, that the sovereign ought to be made a legal tender at 10 rupees.

90. In Australia a duty of 1*s.* 6*d.* is payable at the Customs for every oz. of gold exported, for which a duty of 1*s.* 3*d.* for every oz. of standard fineness is substituted upon that portion of the gold which is brought to the Royal Mint at Sydney. This difference is intended to equalise the charge upon two descriptions of metal; the raw gold, as produced from the mines, being considered generally better than standard gold to the extent of 3*d.* per oz. Besides this, a charge is made at the Sydney Mint for melting, assaying and coining, of one per cent. upon quantities below 1,000 oz., and of

* This opens to view another important result of a gold currency. Combined with rail ways and the paper currency, it will have a great effect in equalising the internal exchanges. The substitution of gold and paper money for the cumbrous silver medium will also allow of the public expenditure being carried on with a smaller average balance, and a large amount of silver will be thereby set free.

$\frac{3}{4}$ per cent. upon larger quantities. If it shall be determined to adopt an alternative legal tender of gold and silver in India, hanging on an uncertain balance, the expediency of maintaining these charges will probably be reconsidered. No revenue, which the Australian Colonies are likely to obtain from them, can be compared with the advantages they would derive from the unlimited demand for their great staple, which would be the consequence of its really becoming a component part of the currency of India. The 1s. 6d., or 1s. 3d. the oz., is an ordinary export duty upon gold, treated as an article of merchandise. The additional Mint charge of 1 per cent. was described by Mr. Miller, of the Bank of England, in his evidence before the Select Committee on the Sydney Branch Mint, as "very extravagant indeed."

91. The establishment of a regular trade, embracing England, India, and Australia in a connected process, would also somewhat reduce the price of gold in India, and would give increased steadiness to it. Up to the moment of its absorption into the currency, every ounce of gold which reaches the shores of India is an article of merchandise, affected by all the conditions which influence commercial transactions; and it is a well-known rule that, while high profits are necessary for isolated, exceptional, one-sided operations, a low average rate suffices for a settled trade in which several profits and freights are obtained in a connected series.

92. While Australian sovereigns can now be laid down to Calcutta at Rs. 10-2-9 each, English sovereigns can only be delivered at Rs. 10-4-10. This shows how completely this is an Indian and Australian question in its practical details. Although England is deeply concerned, it is only through the interest she has in her commercial and other relations with India and Australia.

93. After making all these allowances, the sovereign at 10 rupees would probably still be undervalued as compared with silver; but the use of gold as money is attended with so many advantages, that it would, notwithstanding, be preferred in all but petty transactions. If I am right in this conclusion, the object we all have in view will be attained. When sovereigns are tendered at 10 rupees, creditors will get something more than they are entitled to, and yet sufficient motives will not be wanting to maintain sovereigns in circulation.

94. My proposal, therefore, is, that sovereigns and half-sovereigns according to the British and Australian standard, 11-12ths fine and £3-17-10 $\frac{1}{2}$ an oz., coined at any properly authorized Royal Mint in England, Australia, or India, should be declared legal tender in India at the rate of one sovereign for 10 rupees; and that the Indian Mints should be open to the receipt of gold bullion on the above-mentioned terms to be re-delivered in coin at a charge merely sufficient to cover the cost of manufacture, which is much below the present charge of 1 per cent. The Mint charge on silver should be maintained at the existing rate of 2 per cent. The Government currency notes would be payable either in rupees, or in sovereigns at the rate of 10 Rupees. No bullion, either gold or silver, should, for the reasons already explained, be received in exchange for notes.

95. Mr. Claude Brown remarks—"that under such an arrangement, sovereigns would be readily and rapidly received into general circulation, I have little doubt, but the first and most essential condition is that some one must provide the sovereigns, and my difficulty is that I do not think it can be done

at the price." My answer is that gold, in general, and the sovereign, in particular, are already provided in vast quantities, and that the motives which have produced this great importation are likely to be increased by making the sovereign a legal tender at Rs. 10.

96. The view I take has rendered it unnecessary for me to enter upon some considerations, which have usually been much dwelt upon in the discussion of this

Concluding observations.

subject.

97. I freely admit the hoarding propensities of the people of India, arising from habits induced by ages of misgovernment. The Government of India has been a still greater offender, owing to the enormous cash balances held by it, which, taken together with the numerous and large reserves kept by the Native States, probably amount to more than is hoarded by all the ryots and other private persons throughout the country. Mysore, which is under our own management, had upwards of £1,000,000 until a portion of it was lately invested in Government Securities; the petty principality of Kirwee had a treasure amounting to more than £600,000, which was never heard of until it was captured by our troops; Saadat Ali's Lucknow treasure was about £8,000,000; and the third-rate State of Scinde had £470,000. These last have disappeared; but their recent existence is illustrative of the prevailing practice of Native States.

98. I also entirely agree with the position which has been so clearly established by Captain Lees in his valuable and interesting book on "The Drain of Silver to the East, and the currency of India," that, partly owing to the change from a Native to an European form of Government, partly to the substitution of money for barter in remote districts, but chiefly to the general increase of prices and wages and the vastly augmented amount and number of transactions, the requirements of India for coin for currency purposes are only beginning to be felt, and that, notwithstanding every aid that can be given by the extension of paper money and credit, the ultimate demand will exceed any thing of which we have yet had experience.

99. The channels of circulation, according to the actual habits of the people and their existing modes of transacting business, have, for the moment, been filled by the enormous amounts of silver which have, of late years, been poured into the country, and this is one of the causes of the great increase in prices which has taken place. Nevertheless, the craving of this great population for the precious metals remains unsatiated, and silver and gold are the only articles they are willing to accept in unlimited quantities in return for their immense supplies of valuable produce. The basis of the question is, therefore, a mercantile one, and it is only incidentally a monetary one. The people of India *will* have the precious metals in return for their produce; and the point for decision is, whether, owing to our Mint Regulations, their demand shall continue to fall in undue proportion upon silver, or shall be proportionally divided between silver and gold; the value of the annual production of gold being two and a half times that of silver, and gold being about fifteen times more efficient, as a circulating medium, than equal quantities of silver. I mean that, if a given price has to be paid, the quantity required to be used will be less by about fifteen times if it is paid in gold, than if it is paid in silver.

100. When the power which India has of absorbing the precious metals shall be turned in equal proportion in the direction of gold, there will no longer

be any solid ground for apprehending a progressive depreciation of the value of that metal throughout the world. The new demand for gold will then be fully on a level with the new supply. I agree with Mr. Jevons in thinking that "the ultimate effect of the late gold discoveries will be to render gold more than ever the pre-eminent and natural standard of value. The greatly multiplied mass of gold in use, the increasing area of production, and the greater variety of nations which share in its production, will finally render it far more steady in value even than it has been. In becoming more abundant, gold will become more than ever the natural international currency, by the flow of which the balances of the exchanges of nations will be adjusted. It will become more generally the money of the world."

X.

MINUTE, DATED 4TH AUGUST 1864, BY HIS EXCELLENCY SIR WILLIAM MANSFIELD, K.C.B., ON SIR CHARLES TREVELYAN'S PROPOSAL TO VALUE THE SOVEREIGN AT TEN RUPEES IN THE INDIAN CURRENCY.

I am under great obligation to Sir Charles Trevelyan for the very kind manner in which he has been pleased to allude to my Currency Minute dated 8th March 1864.

2. It is a matter of no ordinary satisfaction that my argument and theoretical conclusions should have been able to arrest his attention.

3. This being so, it is with unfeigned regret that I am obliged to say that I am not convinced by Sir Charles Trevelyan's reasoning of the soundness of the measure by which he proposes to commence the conversion of the silver currency of India to a golden one.

4. The measure to which I allude is the legalizing of the value of the sovereign in ten rupees for tender of payment, while the sovereign is really worth more than that sum.

5. The question of respective values of gold and silver in India, as determined by experience during the last few years of expansion of trade and increase of gold production, has the most important practical bearing. On the successful appreciation of it may be said to depend the ultimate success of the great reform, the entertainment of which has been sanctioned by the Right Honourable the Secretary of State for India, and by the Viceroy and Governor General in Council.

6. I have ventured to remark once before at some length on the details

<p>* <i>Vide</i> Chapter XI and Appendices of Minute of March.</p> <p>† <i>Vide</i> Appendix No. VV to Sir Charles Trevelyan's Minute.</p>	<p>of this matter,* and it is satisfactory to observe that the calculations and statements of value thus offered at Bombay receive support from those independently prepared at Calcutta †</p>
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7. Thus the Honourable Mr. Claude Brown shows by a calculation of averages that the sovereign has in Calcutta of late years maintained about the same value as it has in Bombay, the cost of the sovereign being now, as he states with regard to the gold it contains, worth R10-2-11, and with the additional one per cent. for seignorage R10-4-6; consequently, Mr. Brown observes that, under the arrangement proposed by Sir Charles Trevelyan, sovereigns would be readily and rapidly received into circulation; but the first and most essential condition is that some one must provide the sovereigns, and that his difficulty is that he does not think it can be done at the price.

8. It may here be said that in the price of gold, as shewn by the sovereign, it is well to banish from our minds the distinction between Australian and British sovereigns, except such very trifling difference of value as is, I believe, supposed to exist between the two coins.

9. The price of gold in India, where the metal is viewed as a commodity of import, is, of course, regulated by the price it bears in the country where it is most cheaply produced, to which must be added all other charges.

10. The freight and loss by interest being less on gold imported direct from Australia than if the same gold had made the circuit of the world, it follows that gold imported by way of Europe must accommodate itself to the superior cheapness of Australian gold; in other words, that the price of the

latter in India rules the price of all other gold from wheresoever it may come.

11. This is actually seen to be the case when sovereigns, whether British or Australian, are considered as a matter of commerce. The exceptional taking up of the former for the use of travellers on their road to England, has no practical effect as regards the real price of gold. On the sailing of a steamer, English bank notes are sought and paid for exceptionally on account of such personal convenience.

12. The price of the sovereign in India, as an article of commerce, having thus depended on the marketable value of gold, it has been seen in the two great marts of Calcutta and Bombay that that price has on an average of years been slightly more than $\text{Rs } 10-4-0$, although the sovereigns are treated in their character of gold without respect to Mint or seignorage charge.

13. Consequently Sir Charles Trevelyan's price, to which he desires to give a legal sanction for tender of payment, is, at the least, six-pence less than this average value of the sovereign, or about $2\frac{1}{2}$ per cent. as hitherto maintained.

14. The question therefore arises, to put Mr. Claude Brown's doubt in another form,—who is to bear the loss of the $2\frac{1}{2}$ per cent. ?

15. It will be understood that if the Mint can find the gold, the people will be only too happy to exchange their rupees at a rate which will give them six-pence, or four annas, on the changing of every packet of ten rupees. But is the Government prepared to lose the six-pence, or, in other words, the $2\frac{1}{2}$ per cent. ?

16. Surely we cannot expect, except in the case of extraordinary dearth of silver, that the people will pay in gold when to do so causes them a loss of $2\frac{1}{2}$ per cent. on their transactions. On the contrary, they will continue to pay in silver so long as gold remains at a premium in the market, as compared with the rate fixed for the optional legal tender.

17. Gold would then be issued at that low rate only at Government Treasuries, and the Government, receiving silver in payment of revenue, would then be the sole loser. Government would therefore be driven to make all its payments in silver, to prefer silver as the means of redeeming the currency notes, and therefore to defeat the measures it is now bent on introducing.

18. Another question also surges up. It may be asked why is $2\frac{1}{2}$ per cent. to be added to the value of the national debt, as a condition of the conversion of the silver currency ?

19. Yet if it be in the power of the Government of India to redeem part of the capital of the debt, and to discharge the interest of it in gold, according to the price sought to be legalized, and if it do so, it is clear all such payments would involve a *pro tanto* addition to the debt as shown by the artificial depreciation of the gold coins. For it is admitted by Sir Charles Trevelyan that, under any circumstances, his gold will be offered in currency at a less price than it habitually fetches in the market.

20. But it may be further doubted whether the Mints would, on the terms of Sir Charles Trevelyan's Minute, obtain any gold with which to carry out the conversion of the currency, except in the remittances of gold made on account of Government. In consequence of their being worth more than the rate fixed for the optional tender by law, sovereigns imported on private account would be sold at the premium they might be able to command in the market. Bar gold being sent to the Mints for coinage would be recovered

by the owners in the form of sovereigns, to be sold in like manner at a premium. Sovereigns would not be exchanged for currency notes in the Issue Department.

21. The further consequence would be, then, that the currency would become complicated instead of being relieved, as we wish it to be. Although dignified as currency legal tender, if any body chose to tender them at a loss to himself, sovereigns would practically remain an article of trade, while Government, whenever it paid gold as part of the normal currency, would be the sole loser.

22. The result therefore would be, that silver would remain as it now is, and importation of it for purposes of currency would be continued—one of the things we desire to prevent—while gold, in effect, would not be promoted to perform currency functions as we desire.

23. It is stated that the Australian sovereign can be laid down at Calcutta for R10-2-9. The data on which this assertion is based are not, I believe, furnished. It is not shewn whether the profits of the importer are included in the figure, or if the mere cost of the gold in Australia, freight and other charges, are comprehended only.

24. Unless the latter is the case, it is difficult to understand how the price of gold remains on an average at a higher rate than that at which it can be profitably imported. In short, we must take the value of gold at what it is shewn to be by the average prices of a term of years, and not from an arbitrary assertion made at a particular juncture.

25. I annex a valuable return of the price of sovereigns, British and Australian, during the last five years. This average price is shewn to be about R10-4-0, or considerably in excess of that for which, it is alleged, Australian sovereigns may be laid down at present.

26. Sir Charles Trevelyan, however, taking the smaller figure, *viz.*, R10-2-9, as his basis, trusts that the Colonial Legislature of Australia may be induced to reduce the price of gold exported from Australia to India by abolishing the export duties.

27. It may be asked if it is not too sanguine to expect such accommodation from popular and distant Governments over which we have no control? Should we ourselves be justified in legislating with a view to a contingency which must in any case be remote, and which many politicians who consider how colonial revenues are raised with regard to colonial impatience of taxation, will declare to be so unlikely as to be almost impossible?

28. But it is to be remarked that the new and great demand for gold, caused by the organization of an effective gold currency in India, will not improbably raise the price of gold throughout all the markets of the world, of course including Australia. On the other hand, we must not forget that the yield of gold in the latter country is largely diminishing as noted by Sir Charles Trevelyan. It is not impossible that the two things taken together might neutralize the effect of abolishing the Australian export duty, if such a measure were ever to take place.

29. Sir Charles Trevelyan is apparently of opinion that, eventually, the price of gold in India would be somewhat diminished by the regularity of trade consequent on the introduction of a gold currency.

30. But is this likely? Has he not overlooked the effect of the new demand on the regions of supply, when gold shall be substituted in the imports to India, in the place of the many millions of silver now annually brought to her shores from all parts of the world?

31. We have already seen in India how the superior convenience of gold as a vehicle of reserve value has kept up its price in India as reckoned in silver, notwithstanding that it was shut out of the currency. May we not expect a still greater result in the same direction when it is admitted?

32. I am evidently not singular in such views. Thus Mr. Claude Brown, while he does not guarantee that gold may not ultimately be reduced in value so as to enable the sovereign to be supplied at R10,—

“sees no valid ground for expecting such a change, especially when due allowance is made for the effect which the adoption of gold as a circulating medium in India must have in checking any tendency that might otherwise have existed to a decline in the value of the metal.”

33. Let us now consider the subject in another manner. Sir Charles Trevelyan, when advocating the introduction of the sovereign as an uniform standard of exchange, says that it would come into more extensive use than the Spanish dollar ever did, if fair play were given it. Yet he shows that he has misgivings that his proposed measure will retard the conversion of the silver medium to a golden one, the real and immediate object of the proposed reform of the Indian currency.

34. Can it be said that fair play is given to the sovereign as a current coin, when making a law that gold and silver shall be optional legal tenders we declare that the former shall be issued in a coin—the sovereign—charged at a rate which depreciates its value?

35. The object of the change which is now proposed is the eventual conversion, without shock or expense, of the silver currency to a golden one.

36. It is difficult to understand why, bearing this object in view, we should commence with a measure which, as Sir Charles Trevelyan admits, may retard its attainment. Should we not rather recognize the fact of equality of intrinsic value between the respective coins of the two metals, as the only basis of theory and practice in our progress towards the eventual position of a gold currency and a gold standard, that progress being determined only by the other fact of superior convenience of a golden medium over a silver one?

37. In this case we shall have simplicity, an intelligible principle, and, it may be said, finality; whereas, in the other, we shall commence with a measure open to the charge of retarding the reform we propose, which, by some critics, will be held to be synonymous with inoperativeness—in other words, failure:

38. By taking the basis of equality as now shewn by the averages, we stop speculation with regard to artificial and local differences of value as much as we can. The relative values having been so determined by experience till the present date, will become fixed henceforth in currency at present rates. We have seen examples of a like result in the instances of France and America. As in those countries, the moment will in such case at length arrive for stereotyping the rate by means of the token coinage.

39. If, on the other hand, when we inaugurate our reform, we depart from the basis of equality in favour of silver; we, in fact, delay not only the conversion of the currency as shewn above, but we do something more. We forego the advantage of determining the value of gold in currency by the current silver coin, for the future as well as the present*.

40. Without such determination of the value of gold in silver, according to reason as well as an arbitrary regulation, which will be set aside by the

* *Vide* Chapter III of Minute of March, more particularly the closing pages of that Chapter.

premia of the markets, the currency reform cannot become substantive, and we shall laud ourselves amidst the uncertainties of the double standard.

41. For in such case the attempt will be really made to have two measures of value in different metals, whereas we know that trade and exchange will only admit of one measure. By insisting on the nicest equalization of value between silver and gold in the issue of coins, under a joint or optional legal tender, we still adhere to the old rupee measure or silver standard, but we offer the golden equivalent in its place. If we willingly afford more of gold than is equal to the silver, we do the reverse, and we compel the community in every transaction, public or private, to consider whether it is to be performed in silver or in gold.

42. It may be further observed that, by means of the nice equalization of the legal tenders in point of value, we are perfectly just to the present holders of silver and the holders of securities, whether on public or private contracts. For they will be allowed at their own convenience to pay in silver or gold. This fact would prevent the depreciation of silver from its present value with regard to gold. For if it were to fall, as suggested by Sir Charles Trevelyan, below the par of present value, which, on a real present equalization, would be fixed in currency, it would be quickly bought up for the discharge of debts according to the option afforded by law. Its currency value, and therefore its price in the country, would be as rapidly restored.

43. It would appear, after considering all the features of the matter presented to us, that we are encumbering what would be otherwise simple by the attempt to graft on it something else. Thus we desire to have a gold currency for India. The measures to effect such a change are direct and simple. But this is no longer the case if we take the opportunity to provide what is called an imperial standard of exchange for the dependencies of Great Britain, and then to fix in India a gold coin at an artificial price, that coin having been struck for a system of coinage unknown to India and her coined values.

44. It seems strange to try to force down a strange coin at a price which is not its true equivalent; in short, to bend certain physical facts of value in favour of a notion of decimal convenience and of relation to other portions of the British Empire.

45. The equitable proceeding would appear to be, on the contrary, if we choose to impose on India a gold coin which is foreign to her system, that rather than commit ourselves to an arbitrary measure, we should give the strange coin for its exact value, just as in exchanging gold for silver we should take care, as far as lies in our power, that in general the equivalent of the former is accurately afforded in substitution of the latter; in other words, that our currency transactions should exactly follow the law of barter, until the absorption or disappearance of the silver may enable us to revert to a single legal tender for large sums by the introduction of the token coinage.

46. With regard to all existing debts and contracts, we are unable to part with the existing silver rupee. It is to us what the franc is to the French, what the dollar is to the American.

47. We should only think of rendering that silver rupee in its golden representative, and we should not for the present trouble ourselves with more. According to the proposal which has received the sanction of the Government of India, we do not confine ourselves to this, but, for *ex parte* considerations, we make the effort to confer a greater value on the rupee than it physically possesses.

48. I cannot help thinking that a confusion has arisen, and that the advantage of clinging to the sovereign for India has been overrated, while the difference between its value and that of ten rupees has been under-rated.

49. Had a sovereign been worth twelve rupees, there would have been no thought of legalizing it in a value of ten rupees. But, in truth, when the large operations of trade are involved, it makes but little difference, so far as the object we are considering is concerned, whether the difference be two rupees or two annas. In either case the difference is sufficient to ensure an immense profit or loss to a merchant who operates with millions. This being so, the market premia, owing to want of original mint equalization of value, entailing the official depreciation of gold, would, I believe, infallibly drive gold out of the currency. I think, therefore, that if we would succeed in fairly resolving the problem we have before us, we must have a gold coinage for India herself, and let sovereigns run according to their value, which may be determined by law with regard to the regular Indian gold coin.

50. In short, the sovereign should be the ally to assist India in participating in the convenience of the imperial standard. But it will not be permitted to usurp the rule in the realm hitherto occupied by the rupee, and to change the value of the latter.

51. We can, then, hardly resist the conclusion that the golden multiple of the rupee should be calculated and minted with regard to the value of the rupee only, and apart from all other considerations, sovereigns being allowed to run for their relative value.

XI.

MINUTE, DATED 16TH SEPTEMBER 1864, BY MR. G. ARBUTHNOT ON SIR C. TREVELYAN'S PROPOSAL TO VALUE THE SOVEREIGN AT 10 RUPEES IN THE INDIAN CURRENCY.

The question of the adoption of what is usually termed a double standard, but which would be more appropriately designated an alternative measure of value in the currency of a country, is always a difficult one, but the proposition submitted with respect to the currency of India is further complicated by its novelty, both in respect to the object to be attained, and the mode by which it is hoped to accomplish it.

2. In other countries, with the exception of the British Colonies, the measure sought to be attained has been to allot such a proportion of gold and silver to the current national coins, consisting, respectively, of those metals, as would give an equal relative value to each in a common denomination of account. In India it is proposed to legalize the currency of the existing coins of two different countries, whose money of account has nothing in common. In other countries, including the British Colonies, the principle aimed at has been to give a nominal concurrent value to coins of the two metals, according to the average value which gold and silver bear to each other in the general market of the world. In India it is proposed to follow a course founded solely on local considerations, uncertain in their effect, and possibly of an evanescent character.

3. Before discussing the particular measure proposed by Sir Charles Trevelyan, it may be desirable to clear the way by disposing of some of the preliminary arguments introduced in his Minute on points of general application.

4. It may at once be conceded that the substitution of a gold for a silver standard, if it could be effected without derangement of current business, and without evident depreciation of the measure of value, would be unobjectionable on principle in regard to its effect on existing contracts. Though the precious metals have greater fixity of value than other products, and are on that account adopted as the best regulators of prices, they are liable to fluctuation in respect to the proportion which they bear to each other, and to commodities generally; and it would be a pedantic subserviency to Regulation to maintain that a debt contracted for a payment in silver should never be discharged by its equivalent, at any given period, in gold. On the same consideration an alternative measure of value, if nicely adjusted, may be regarded as unobjectionable in principle.

5. We may dismiss, in reference to this part of the question, all conjectures regarding the future supply of one or other of the precious metals. Sir Charles Trevelyan apprehends difficulties from a diminution of the supply of silver; but the history of the world has not hitherto afforded any alarming indications of a great alteration in the relative production of gold and silver. It is said by well-informed persons that the supply of silver is on the increase, arising partly from the discovery of new mines of that metal in California, and partly from the increased facility of extracting silver from the ore, in consequence of the opening of new mines of quicksilver. On the other hand, though new gold fields have been discovered, the yield from those of Australia

has decreased, and this fact would seem to confirm the experience of former days, that gold lies nearer to the surface of the earth, and is therefore sooner exhausted than veins of silver. The relative value of these metals will be governed ultimately by the amount and quality of the labour employed in their production. In the meantime, their relative prices in the market afford the only safe guide, and these do not confirm the opinion entertained by Sir Charles Trevelyan on the subject.

6. We may in like manner dismiss speculations on the supposed fitness of different forms of currency as applicable to different stages in the growth of a nation. Sir Charles Trevelyan considers that a natural law exists by which the currency should pass from rude materials, first to silver, then to gold, and ultimately to paper as the representative of gold. But there is no example of this order of sequence in the commercial history of the world. In Great Britain, in France, and in the United States, the use of a paper circulation existed (sometimes to excess) long before the adoption of a gold standard, and a sound paper currency may be founded on the basis of either metal indifferently.

7. The subject matter for consideration is eminently a practical one, though it is unusually entangled by a variety of uncertain elements which suggest motives for caution rather than confident speculation.

The movement of the precious metals since the discovery of new gold mines has been governed by many contingencies, not immediately referable to the increased supply of that metal, nor even to the vast development of the commerce of the world arising from the establishment of free trade in Great Britain.

8. If other things had remained the same, the natural effect of the gold discoveries would have been a redistribution of the precious metals throughout the currencies of the world. After providing for a circulating medium among the new industrial communities attracted to the gold fields, the surplus metal would find its way into currencies of countries which are based on a gold standard. It would displace silver in countries having a mixed circulation; and the latter metal would flow to places in which it constitutes the standard of value. By such means currencies consisting of silver would be increased correlatively with those of gold, and nominal prices would be generally raised throughout the world. During the progress of the change the value of the precious metals in relation to each other would be liable to considerable fluctuation.

9. These effects in part followed the first discoveries of gold in California and Australia. They were arrested or modified by the vast development of trade, the increased well-being of the masses of the population, and with it the opportunity and habit of Railway travelling, all which led to the requirement, certainly in England, and probably in other parts of the world, of a great addition to the circulating medium for the purpose of retail traffic.

10. But the main cause of disturbance in the natural flow of the bullion trade has arisen from the fortuitous character of our trade with the East, which has prevailed ever since the new discoveries of gold, and has baffled conjecture. The opening of new ports for trade in China led to a great augmentation of imports into Great Britain and the United States, in excess of the exports to that country. The transmission of treasure on account of capital raised in this country for Indian railways followed; then the loans on account of the expenditure for the suppression of the mutiny; and, lastly, the money required for the purchase of cotton in India in consequence of the

Civil War in America. To these events may be added the opening of trade with Japan.

11. In all these cases large remittances of silver have been and are still required to adjust the balance of trade; and though the operation has been continued for some years, it has been owing, in the case of India, to circumstances of a very exceptional character.

12. It is argued by Sir Charles Trevelyan that there is no want of additional circulating medium in India, because prices are universally high, and that high prices "are a certain indication of a full state of the circulation, because, whatever may be the causes which create a tendency to a rise in price, they would be held in check if the circulating medium were deficient." This dictum cannot be accepted without qualification. Prices are a relative indication of value; and no sound conclusion can be formed as to what really constitute prices sufficiently high to govern the circulation of specie, unless a comparison be made between the different causes in operation at the present time and at times when prices of commodities were comparatively low. It is true that in the case of trade between countries whose exchanges are generally well balanced, and the supply of specie is in a normal condition, low prices attract, and high prices repel money. But this theory fails in its application, when, in consequence of an increased supply of one or other of the precious metals, a new distribution of them is in progress throughout the world, and when a new trade or a new demand for labour springs up in a country in which the wages of labour are low. In the latter case, a long continued influx of specie and augmentation of the circulation is compatible with a continued rise in prices. It is probable that with the new demand for labour in India, the internal trade of the country has greatly increased, and that with that increase there has arisen a necessity for a large addition to the circulating medium. Much of the money supplied is no doubt hoarded or ultimately converted into ornaments, but the primary want is coin, an adequate supply of which, or its equivalent in notes, can alone avert a recurrence of the crises which are described in the Minute.

13. It is this want, indeed, which has given an impulse to the present demand from merchants and trading bodies for the adoption of a gold subsidiary currency in India. The superior convenience of a gold circulation over silver for purposes of transport and for use in transactions above the ordinary dealings in the market is obvious. Yet many rich countries have employed silver as the standard of value without sensible disadvantage; and in a country like India, coins of inferior denominations must be most required. It is probable, therefore, that the present movement would not have arisen if the internal traffic of the country had been alone in question, or if the machinery of the mints had been sufficient to have met the demands for the coinage of silver periodically remitted in such large quantities for payments due from England, which will probably continue so long as the present abnormal demand for cotton lasts.

14. The proposal is to ease this pressure by declaring sovereigns a legal tender in India, as the equivalent of ten rupees; and a variety of returns is furnished to prove that by a comparison of prevailing prices between gold and silver in India, there is a probability that sovereigns will freely pass in payment at that rate. The Returns themselves, even if the conclusions derived from them are correct, do not seem to me to prove that, with every allowance for the peculiar condition of the bullion trade in India, the price of sovereigns at Calcutta (either British or Australian) is such as to allow of their

importations in large quantities for the purpose of circulation at ten rupees. An examination, however, of the Statistical Tables raises doubt regarding the completeness of the calculations comprised in them, and the general conclusions founded on them appear to me to be altogether erroneous.

The information on which the scheme in the Minute is founded is mainly derived from the paper furnished by Mr. Dunlop (Appendix TT). This gentleman appears to have collated with intelligence, and, I have no doubt, with great accuracy, the Returns accessible in India* of the imports of gold and silver and of their relative prices.

15. Reasoning founded on statistical compilations is, however, proverbially delusive, unless attention be given to collateral facts. No sound conclusions can be formed from averages taken from monthly statements of the prices of gold and silver without information regarding the amount sold in each month, and the circumstances under which each remittance was made. A merchant or banker is not governed in his dealings by averages, but by his calculation of the immediate profit to be derived from each transaction. The flow of the precious metals is governed by the exchanges, and a turn of 1 per cent. in them might be sufficient to send gold from one end of the world to the other. Take, for example, the price of Australian sovereigns at Calcutta in the last three fortnights of 1863, *viz.*, Rs. 10-5, 10 1-6, and Rs. 10-1; the average of the three quotations would be Rs. 10-2-6; but supposing sovereigns to the extent of £150,000 were sold in the first fortnight, and to the extent of £50,000 in each of the following fortnights, the price realized for the whole would be Rs. 10-3-6. Something of this sort actually occurs in trade.

16. The remittance of sovereigns from England to India is governed by the price of silver and the quantity procurable in London at the time and the price at which bills on London can be purchased in India. Gold is sent in order that the value may be returned, with profit, in the shape of bills. In the month of December 1863 the price of silver in the London market rose to 5s. 1½*d.* Not only, however, was the price high, but the quantity in the market was insufficient for the amount of remittances required. Time is precious in mercantile transactions, and those who deal in the business of remittance and exchange could not afford to wait for expected arrivals. Gold was therefore sent in place of silver; and I learn, from a Return of the Custom House, that the large amount of £342,615 in gold specie was shipped for Egypt on the 9th of December 1863, the bulk of which was destined for India.

17. Mr. Dunlop comes to the conclusion, from calculations founded on average prices, that British coined gold can "be laid down in Calcutta at Rs 10 4-10 per sovereign." I have ascertained from the Manager of the Oriental Bank that the actual cost of sovereigns sent to India by that establishment in 1863, was at the rate of Rs. 10-3-4. The difference is important, because much stress is laid in the Minute on the economy of direct transmission of gold from Australia to India. There is, no doubt, a saving of expense under existing circumstances in adopting that course; and that

* I may, however, observe that the table of the selling prices of bar gold and silver of standard quality in London is calculated to convey an erroneous impression. The prices of gold which Mr. Dunlop quotes are evidently those of what is technically called "bar gold parting," that is, gold containing silver in the alloy which may be parted in the refinery. Generally speaking, it means Australian bar-gold, which, on account of the silver contained in it, bears a higher price than standard gold of the quality that is taken to the mint.

merchants are not slow to avail themselves of the advantage is shown by the fact that out of imports of gold into India, amounting to nearly £3,000,000 in the year 1863, more than two-thirds were drawn from Australia. Yet more is deduced from this advantage than the facts warrant. No allowance is made as a set-off against increased freight for the charge for refining gold in Australia, which is higher by 1 per cent. than that of the London refineries; no reference is made to the rise in the price of gold in Australia in consequence of the Indian demand, and sufficient consideration is not given to the circumstance that, notwithstanding the facilities afforded by the Australian market, it has yet been profitable to our merchants to send direct from London one third of the gold required in India.

18. I dwell upon this point because it appears to me that the prime fallacy in the proposed scheme is founded on the sentence of the Minute that—

“The sovereign must be rated, not with reference to its value in England, but solely with reference to the cost at which it can be obtained from the cheapest source of supply, that is, from Australia.”

19. The whole question turns upon this assertion and it is important to examine it, because if it be a fallacy, all the authorities consulted in India by Sir Charles Trevelyan appear to concur in it, with the single exception of the Hon'ble Claud Brown, whose letter is published (Appendix VV) with candour, but without the attention which it deserves.

20. It might be a sufficient practical answer to this suggestion to observe that if the importations of treasure into India are to go on at their present rate, and if the proposed measure were to bring about the expected result of inducing the transmission of gold in reference to silver, Australia could not supply more than one-fourth of the amount required, even if the whole of its produce of gold were sent thither. It is shown in one of the tables in the Appendix to the Minute, that the amount of treasure imported into India in 1863-64 was £26,147,200, and it is shown in the Minute itself, that the produce of the Australian gold-fields in 1863 was only of the value of £6,685,192 with “a decided tendency to fall off.”

21. It may further be observed, that the gold imported into Great Britain is drawn, in the course of trade, from almost every country, and that Australia supplies but a comparatively small proportion of the amount. According to the Returns of the Board of Trade, the value of the registered imports of gold bullion in 1863 was £19,142,665. Of this only £5,995,368 was derived from Australia. A great part of these general imports is employed, through the operation of the exchanges, in acquiring silver for transmission to India; and if, by an alteration of the Currency laws, silver should cease to be the preferable medium of remittance, gold would be sent direct to India from England, instead of being used circuitously in the purchase of silver.

22. The principle involved requires, however, further investigation, and I propose to direct attention to the experience to be derived from the proceedings of other nations which have adopted a mixed currency, and to draw inferences from that experienced in regard to India.

23. I will first refer, in some detail, to the case of the United States, because the proceedings of that Government afford an example of the effect, on a currency, of small errors in calculations of relative value, and because the history of those proceedings is not correctly quoted in the Minute.

24. The first Act of Congress for the regulation of the Currency of the United States was passed in 1792. It enacted that “there shall be from

time to time struck at the Mint dollars and units, each to be of the value of a Spanish dollar, and to contain $371\frac{1}{4}$ grains of pure, and 416 grains of standard silver." The Eagle (or 10 dollar piece) coined after this, contained $247\frac{1}{2}$ grains of fine gold.

25. It may not be unworthy of remark that Congress in its first search for the "almighty dollar" deviated from the coin proposed for their model, as the average contents of fine silver in the Spanish dollars was about 376 grains. The authorities of the United States thus begin their operations by a depreciation of the currency to the extent of more than 1 per cent.

26. It will be observed that the relative valuation of the gold coin to the silver dollar gave the proportion of 1 of gold to 15 of silver; and as the average relation of the two metals to each other in the general market was at the time as 1 to 15.7, gold was undervalued in the currency, and the new silver dollar became the practical standard of value in the United States. This state of things continued until 1834, when an Act was passed reducing the contents of the fine gold in the Eagle to 232 grains, thus altering the proportion of gold to silver in the currency from 1 to 15 to 1 to 16. Gold being thus over-valued became the preferable medium of exchange, and a further depreciation of the currency was established. Subsequent Acts altered the proportion of alloy in the two descriptions of coin, but made no appreciable alteration in their relative contents of pure metal. After 1834 the quantities of gold taken to the United States' Mints for coinage greatly exceeded the quantities of silver, and the coinage of the silver dollar and its sub-divisions was limited to the requirements for a circulation of the lower denominations. Although the coinage of silver under this system was expensive, no material inconvenience appears to have been felt until after the discovery of the gold mines of California, when the relation of the two metals to each other was altered to an extent which rendered it profitable to collect the small silver coins for exportation. To remedy this evil, an Act was passed in 1853, not altering the old silver dollar (that is, the whole dollar) but authorizing the coinage of half dollars and lower fractions of a dollar, at the rate of 192 grains for the half dollar in silver of nine-tenths fineness, which should pass for a limited tender of payment on the principle of the token coinage of Great Britain. After the passing of this Act the coinage of entire silver dollars fell into disuse, and the last coin of this description was issued in 1857. Legally, therefore, the double currency of gold and silver still exists in the United States, but gold became the practical measure of value until displaced by the recent excessive issues of Government Paper money.

27. In France the attempt to establish a double medium of exchange was more nearly adapted to the prevailing relative value of the two precious metals. The proportion adopted was as 1 of gold to $15\frac{1}{4}$ of silver. At these rates silver was the cheaper tender of payment until after the new discoveries of gold, but the difference before that event was not so great as to preclude the use of gold entirely, and it passed current at a varying premium. In certain conditions of the exchanges, gold passed between London and Paris in adjustment of payments, and the same bag of gold has been known to make several journeys in these transactions.

28. It is unnecessary to refer to other European countries in which a similar system has prevailed; and it is sufficient to observe that, under its operation, gold and silver were both available for the adjustment of mercantile transactions on the Continent of Europe.

29. I will, however, make a passing remark on the application of this principle to the currency of the West Indies, because Sir Charles Trevelyan

has called attention to a paper written by me in 1858, in which reference is made to this subject, and because the arrangement of 1838, for the regulation of the currency of the British Colonies in that part of the world, affords the most perfect example on record of a successful adjustment of a mixed currency. The arrangement is so fully described in the extract from my paper (Appendix SS), that it is unnecessary here to repeat the details.

30. Sir Charles Trevelyan has referred to my labours under him and with him in and for the public service, in terms so gratifying that I am sorry to find myself in opposition to him on the present occasion. But his candour has hitherto led him to bear much from me in our mutual discussions on financial and other public matters, and he will not, I feel sure, object to my stating that I regret the use made of this document, which does not, I think, bear out the inference which he derives from it.

31. The paper from which the extract is made was written for the purpose of proving that the arrangement, which was successful in the West Indies, was inapplicable to the Colony of Hong-Kong, and for like reasons I consider it inapplicable under existing circumstances to India. I think that the extract itself shows that the conditions which rendered the transition from a silver to a gold currency in the West Indies, easy and unobjectionable, are not to be found in India. In the West Indies, coins of the two metals were rated for circulation on a fine calculation of their relative value; and British silver, which combining with that relative valuation represented fractional parts of both descriptions of coins, constituted, as it were, a pivot on which a change from one to the other could be made, without derangement of contracts or current business. In India both these ingredients are wanting. There is no concurrent valuation of gold and silver coins to form the foundation of a change, and there is no subordinate coinage which can be adopted equally to the current money of India and Great Britain.

32. It will be obvious that, in all the foregoing cases, a common prevailing price constituted the basis on which the regulation of the concurrent use of gold coins was attempted, and that the practical results have depended on the prevailing price and its later variations. The currencies of France, of the United States, and of the West Indies were influenced by a common cause.

33. We find no room for speculation on the sources of the supply of the precious metals. Before the recent discoveries, the principal supply of gold was derived from Ural Mountains, but it was not found that gold, for permanent and practical purposes of regulation, was cheaper in the countries bordering on Russia than in America.

34. Gold derived from America is constantly sent back from London to the Brazils in the course of trade. In 1863, gold of the value of £2,707,857 was sent from Great Britain to Russia, a gold-producing country, and re-exports thence of the value of £904,532 occurred in the same year. When once sent on its travels, the original attribute of peculiar value is lost, and gold of the same quality becomes of the same value whencesoever it may be derived, and whatever may be the cost of the labour which produces it.

35. On what ground, then, is it supposed that the general law is inapplicable to India, and in what way are we to account for the undoubted fact that gold is relatively cheaper in India, as compared with silver, than in London?

36. The apparent anomaly is owing to the exceptional position which India holds, and is easily accounted for.

37. Silver is the standard, and the regulator of prices in India, to the entire exclusion of gold as a measure of value. It is so generally in the East. Except in the comparatively small communities of Ceylon, Mauritius, and Manila, and doubtfully in Japan, gold hardly enters into the currencies of the vast regions eastward of the Cape of Good Hope and northward of Australia. It follows that it is comparatively depreciated there when measured by the silver money of those regions. The material of that money, purchased with gold in London, must bear the charges of freight, insurance, interest, and mintage, amounting in India to $5\frac{1}{4}$ per cent. (as correctly shewn in Mr. Dunlop's paper) before it can be brought into circulation in India. It is by this silver measure of value, thus enhanced in price, that the cost of the Australian sovereign is estimated in Sir Charles Trevelyan's Minute.

38. Remove the impediment to the concurrent circulation of gold with silver, and the cause of this difference of value between the two metals in the West and the East will disappear. The tendency, at least, must be to an equalization of the general rates of the bullion market in both quarters. It is therefore the price of silver in London, and not the price at which sovereigns can be laid down at Calcutta from Australia, as estimated in present currency of India, which should be regarded as the point for consideration in this matter.

39. And this constitutes the main difficulty in devising any measure for the introduction of a gold currency into India. Experience is wanting for a guide. During the first half of the present century, there was little variation in the comparative value of gold and silver. The normal price of silver of British standard in London was about 60*d.* the ounce. The new discoveries of gold disturbed this relation, and the price of silver has of late years been subject to so much fluctuation, that it would be difficult now to fix an average for the concurrent circulation of coins of the two metals. But this is not all. Although the ultimate value of gold and silver must, as before observed, be derived from the value of the labour employed in their production, their immediate price is governed by the law of supply and demand to an extent, and sometimes for a prolonged period of time exceeding that which applies to other commodities. The price of standard silver in London has been mainly influenced of late years by the abnormal requirements for India. When the demand for transmission of silver thither has been great, the price in London has risen; when it has temporarily ceased it has fallen—on one occasion even to an extent which touched the point at which it would have been profitable to send silver to France. Any measure, therefore, which would lead to the practical employment of gold in preference to silver in the currency of India, would cause a cessation in this demand, and lead to a re-action in the upward tendency which has of late prevailed in its price as compared with gold.

40. On this ground it would seem to be rash to attempt, at the present time, any permanent regulation which, if effectual for the establishment of gold in the currency of India, must be of doubtful tendency, and if ineffectual, would be simply delusive, and therefore not creditable to the foresight of Government.

41. A tentative and experimental course would seem the wisest policy in this intricate matter. I understand that the Secretary of State proposes to authorize the receipt of sovereigns at the rate of 10 rupees each in payment of the revenue. Although this measure will not probably give currency to British money at this rate at the Presidencies, it may lead to its increased use in the Provinces, where, on account of the convenience of transport, it will

find its way at less cost than silver; and if the sovereign is officially recognized as currency in any part of India, it may perhaps be received in payment at the Presidencies at a varying premium, just as gold formerly passed current to a limited extent in France. The experiment is worth a trial, and will afford a sure test of the various speculations which have prevailed on the subject.

42. It might tend to afford relief in times of pressure, if the principle were extended to the issue of Notes in exchange for sovereigns deposited at the same rate. If such issues were allowed as a temporary expedient, on the condition of allowing the depositors to redeem their gold within a limited period, the difficulties arising from the delays in the coinage of silver might be greatly alleviated. The transaction would be as safe for the Government as the receipt of sovereigns in revenue payments. It will be seen that the practical objection to which Sir Charles Trevelyan refers in an extract from a paper of mine would not apply to an issue of notes on a deposit of gold for an amount below its intrinsic value. The objection entertained by Mr. Wilson on the subject, on which Sir C. Trevelyan dwells, is at best more a theoretical than a practical one, not borne out by the experience afforded by the practice of the Bank of England; and it will probably be admitted that a measure which may be a gain to the mercantile community by giving them the command of money when needed, will not result in "pure loss" on the Government.

XII.

DESPATCH FROM THE SECRETARY OF STATE FOR INDIA (RIGHT HON'BLE SIR CHARLES WOOD),—No. 224, DATED 26TH SEPTEMBER 1864.

I have received your despatch dated the 14th July last, No. 89, enclosing the elaborate Minute of Sir Charles Trevelyan, and the valuable papers contained in the Appendix, on the subject of introducing gold into the currency of India.

2. The practical proposal of Sir C. Trevelyan on this subject, in which you express the concurrence of your Government, is to make the gold sovereign and half-sovereign legal tender in India for ten and five rupees respectively, concurrently with silver rupees, and ultimately to establish a gold standard and currency in India, as in England and Australia, with a subsidiary coinage of silver, the silver coins not possessing the intrinsic value which they represent, and being legal tender only to a certain amount.

3. I have carefully considered in Council this important question, which indeed has occupied my attention for some time, and which, as you will have learnt from the public journals, has been the subject of a debate in Parliament.

4. I lose no time in making you acquainted with the views which Her Majesty's Government entertain upon this subject, for I concur in the opinion that it is desirable that their decision on the question should be made known as early as possible in India.

5. It is obvious, from the information collected by Sir C. Trevelyan, that there is a very general desire for the introduction of gold coins in India; that the people, even in the upper and remote parts of India, are well acquainted with the sovereign; and that there is a very general impression that the introduction of the sovereign would be well received, and that it would circulate freely at ten rupees. Nor can there be any doubt of the advantage to India, England, and Australia if the gold sovereign could be made the basis of their common currency.

6. It is not proposed at once to change the standard coin of India, and indeed it would be a very serious measure hastily to attempt so great a revolution in the habits of the people. There is great wisdom in the observations of the Chamber of Commerce at Calcutta, that they are "strongly in favour of the introduction of gold as an auxiliary currency and as a tentative measure, which they believe will gradually but surely lead to the adoption of gold as the general metallic currency of this country, with silver as the auxiliary; but they are opposed to any sudden change being attempted, fearing that any such attempt would prove unsuccessful, and be likely to cause great derangement in the commerce and finance of India."

7. The only practical measure, therefore, to be considered is the establishment of a double standard of gold and silver, the gold sovereign being legal tender for the same sum as ten silver rupees.

8. I will not stop to discuss the general question of establishing a double standard, but it appears to me that there are great practical objections in the way of adopting the measure actually proposed.

9. It is only necessary to state that, where coins of the two metals, gold and silver, are equally legal tender, those of the metal which, at the relative legal rating of the two metals, is cheapest at any period, are thereby consti-

tuted the currency, and the metal of which they are made becomes practically the standard at the time, and further that a very slight difference in the relative value of the two metals may change the standard and the whole currency of a country.

10. The readiest illustration of this truth is the recent change in the circulation of France. In that country coins of gold and silver were equally legal tender. Gold coins containing one ounce of gold were legal tender for the same sum as silver coins containing $15\frac{1}{2}$ ounces of silver.

11. Before the recent discoveries of gold an ounce of gold was worth, in the markets of Europe, nearly $15\frac{1}{2}$ ounces of silver. It was, therefore, according to the relative legal rating of gold, and silver, more advantageous to pay in silver than in gold. Silver coin, therefore, for many years formed the currency of France, the gold coin bearing a premium. Since the recent discoveries of gold, the value of gold relatively to silver has fallen to about 1 to $15\frac{1}{2}$. This difference has rendered it more advantageous to pay in gold. Gold has displaced silver, and now forms the currency and standard in France.

12. It is obvious, therefore, that whether the sovereign, rated at 10 rupees, can circulate to any extent in India, concurrently with the silver rupees, depends upon the question whether it will be cheaper to meet an obligation of the amount of 10 rupees by a gold sovereign or by 10 silver rupees.

13. In examining this point, it is enough to refer to the information and the calculations contained in the Appendix to Sir C. Trevelyan's Minute as to the value of the sovereign in India.

14. In these calculations the value of gold is of course taken in rupees of the Indian silver standard.

15. There are two modes referred to in those papers by which sovereigns might be provided for the currency of India, first, by coining them in India, secondly, by importing English or Australian sovereigns.

16. With regard to the first proposal of coining sovereigns in India, Mr. Brown's paper contains a calculation of the cost at present of producing a sovereign at a Mint in India, and he estimates it at Rs. 10-4-6.

17. With regard to the second proposal of importing sovereigns, Mr. Dunlop's paper estimates the price, calculated in rupees (and the rupees taken at the $\frac{1}{10}$ th part of an English pound), at which an English sovereign can be laid down at Calcutta at Rs. 10-4-10, that of an Australian sovereign at Rs. 10-2-9.

18. The prices at which Australian sovereigns have been actually sold at Calcutta, according to Mr. Dunlop's paper, give a higher value for the sovereign than this, and the prices of English sovereigns, which I have received from Bombay, are also rather higher than the price above given.

19. I do not know that, in the present exceptional state of the markets for produce in India, the present prices of the precious metals are a good criterion of their value. On referring to the prices of silver in the markets of Europe, the intrinsic value of the sovereign in rupees would seem to be about Rs. 10-8 at the present price of silver in London, and about Rs. 10-12 at the price which prevailed some time before 1850.

20. At the present prices of gold, with the various charges of bringing it to India, the value of the sovereign must, according to these statements (and it is by these statements that Sir C. Trevelyan's proposal is supported), be so much above that of 10 silver rupees that, for the purpose of making any payment, the latter coins must necessarily be preferred to the sovereign.

21. If there were the means of coining sovereigns in India, it would be more for the advantage of the holder of bullion to carry silver to the Mint for coinage rather than gold, and it would be more for the advantage of the exporter from England to send silver to India rather than gold or sovereigns. Even if the sovereign is imported from Australia, it would be more valuable in India than 10 silver rupees.

22. If the use of gold in the currency of India enhanced its value there, as is probable, and if the anticipations which are generally entertained of a diminishing supply of gold, and an increasing supply of silver, should be realized, the difference in favour of the employment of silver coin will be greater even than it is at present.

23. I cannot but think, therefore, that to enact that a sovereign should be legal tender at 10 rupees, with the view of introducing it largely into the currency of India, would be totally inoperative; and it is very inexpedient to enact a law which would have no practical effect, and which it might be necessary to alter in a very short time.

24. I am unwilling, therefore, to sanction such enactment, but at the same time I see no objection to reverting to a state of matters which prevailed in India for many years, namely, that gold coin should be received into the public treasuries at a rate to be fixed by Government, and publicly announced by proclamation.

25. This was the case with the gold mohur, or 15-rupee piece, from 1835 till Lord Dalhousie's proclamation in 1852, and with other gold coins previously to the reformation of the currency in 1835.

26. At their present value, there can hardly be a question of the readiness of the people of India to receive sovereigns for 10 rupees, and if any difficulty should be apprehended about their doing so in parts of the country distant from the Presidency towns, it will be obviated by their being received at that rate into the Government treasuries. I do not anticipate the least risk of loss to the Government by so receiving them. One of the Appendices to Sir C. Trevelyan's Minute shows that the sovereigns received into the treasury of the Madras Presidency were sold at a profit. The only possibility of loss is such a change in the value of gold as would make a sovereign worth less than 10 rupees, and, for the reasons which I have given, I do not anticipate any probability of this being the case. If it should happen, it would be a very simple measure to alter the rate at which they were received.

27. The obligation which is imposed by making a coin legal tender is only an obligation upon the receiver to take it for a given sum. No obligation is imposed by such an enactment on the person paying. It is obviously unnecessary to impose an obligation upon any one to receive a sovereign for more than its value; and as the person paying, by whom, in fact, the coin is put into circulation, has the option of paying either in gold or silver, the question as regards the introduction of the sovereign into circulation at the rate of 10 rupees must depend upon whether it would be worth the while of any person having a payment to make to carry gold to a Mint to be coined into sovereigns, or to import sovereigns, in order that he may have the power of paying a sovereign in discharge of a debt which he may equally discharge with 10 silver rupees.

28. It is not probable that, at the present relative value of gold and silver, any one would incur the loss which such a proceeding would cause, but if the convenience of the sovereign circulating at the rate of 10 rupees is so

great as is represented in Sir C. Trevelyan's Minute and the accompanying papers, it is possible that this advantage may counterbalance some loss.

29. Whether it would do so, and to what extent, can only be determined by experience, and I am of opinion that it may be desirable to try at once, as an experimental measure, the course which I have suggested.

30. I wish you, therefore, to declare and to make it publicly known by proclamation, that sovereigns and half-sovereigns, according to the British and Australian standard, coined at any properly authorized Royal Mint in England or Australia, and of current weight, will, until further notice, be received in all the treasuries of India for the same sum as 10 and 5 silver rupees respectively, and will be paid out again at the same rate, unless objected to.

31. This measure appears to be entirely unobjectionable. It is in accordance with the cautious and tentative course recommended by the Chamber of Commerce of Calcutta; it will, as far as it goes, facilitate the use of the sovereign and half-sovereign in all parts of India; it will pave the way for the use of a gold coinage in whatever shape it may ultimately be found advisable to introduce it; and, at the same time, it establishes a preference in favour of the sovereign.

XIII.

NOTIFICATION BY THE GOVERNMENT OF INDIA IN THE FINANCIAL DEPARTMENT,—No. 3517, DATED 23RD NOVEMBER 1864.

The Governor General of India in Council, considering it expedient that the circulation of British and Australian sovereigns in all parts of British India and its dependencies should be encouraged and facilitated, is pleased hereby to direct that, from and after the publication of this Notification, sovereigns and half-sovereigns coined at any authorized Royal Mint in England or Australia of current weight,* shall, until further notice, be received in all the Treasuries of British India and its dependencies in payment of sums due to the Government, as the equivalent of ten and five rupees respectively; and that such sovereigns and half-sovereigns shall, whenever available at any Government Treasury, be paid at the same rates to any person willing to receive them in payment of claims against the Government.

* The standard weight of the sovereign is grains 123.274, and it ceases to be current when, from wearage or other causes, it falls in weight below grains 122.5.

XIV.

NOTIFICATION BY THE GOVERNMENT OF INDIA IN THE FINANCIAL DEPARTMENT,—No. 3518, DATED 23RD NOVEMBER 1864.

The Governor General of India in Council is pleased to direct, under the authority vested in him by Act XIX of 1861, Section 9, that Government Currency Notes shall, until further notice, be issued at the Offices and Agencies of Issue of the several Circles of Government Paper Currency in British India, in exchange for sovereigns and half-sovereigns, coined at any authorised Royal Mint in England or Australia, and of current weight, calculated at the rate of ten and five rupees respectively, to an extent not exceeding one-fourth of the total amount of issues represented by coin, or by coin and bullion in each circle.

XV.

MINUTE BY THE HONOURABLE SIR RICHARD TEMPLE, DATED 5TH JUNE 1868.

In reference to the possible introduction of a gold currency for India, I submit that further measures should be considered for the accomplishment of this end.

2. This would be in accordance with the recommendations addressed to the Government of India from all quarters, with the recorded opinion of three successive Finance Ministers, Mr. Laing, Sir C. Trevelyan, and Mr. Massey, and with the express representations of the Currency Commission of 1866, under the presidency of His Excellency Sir W. Mansfield, who is one of the first living authorities on the subject, and by whom the deliberations of Government in this matter have been most materially assisted.

3. I am personally much indebted to His Excellency Sir William Mansfield for advice and support in the preparation of the case which I have now to lay before the Government of India.

The notification by the Government of India issued in November 1864, declaredly with the view

"that the circulation of British and Australian sovereigns in all parts of British India should be encouraged and facilitated,"

though to some extent successful at first, has for some time remained inoperative, since few or no sovereigns are now presented at the treasuries, and in the opinion of the best informed authorities is likely to continue inoperative.

4. The cause of this appears to be that, in the notification, the amount of ten rupees offered as equivalent for the sovereign is not generally sufficient to attract sovereigns, as the above rate is somewhat below the average market value of the sovereign. This result was indeed predicted in Sir W. Mansfield's Minutes of 1864, and was indicated in Sir C. Wood's despatch of 26th September 1864. This view is further enforced in the Currency Commission's report.

5. Inasmuch as the Secretary of State in the above despatch desired that gold coin should be received into the public treasuries at a rate to be fixed by Government, and further observed that

"it may be desirable to try as an experimental measure the course suggested," remarking that

"this would facilitate the use of sovereigns in India,"—

and inasmuch as the notification was issued to facilitate accordingly the influx of sovereigns, which object had not been attained, apparently because the rate offered as equivalent for the sovereign was too low,—I am of opinion that the question ought now to be considered of raising the proffered rate somewhat above ten rupees—a course which would *prima facie* accord with the principles laid down by Sir C. Wood.

6. At the same time, of the amount (understood to be about 500,000) of sovereigns received in the treasuries in consequence of the notification, a large portion is believed to have been rapidly taken up by the public, while some portion (about 160,000) remaining in the treasury was transmitted to England in 1865. It may be that the last-named transmission was due to a particular state of the exchanges at the time. This matter should be more particularly examined in the Financial Department.

7. The average market value of the sovereign—by which the rate to be offered as equivalent in rupees should be regulated—has been fully discussed in Sir W. Mansfield's Minutes of 1864.

The following passages may also be quoted from Sir Charles Wood's despatch of September 1864:—

"Para. 16.—With regard to the first proposal of coining sovereigns in India, Mr. Brown's paper contains a calculation of the cost at present of producing a sovereign at a Mint in India, and he estimates it at Rs. 10-4-6.

"17. With regard to the second proposal of importing sovereigns, Mr. Dunlop's paper estimates the price, calculated in rupees (and the rupees taken at the one-tenth part of an English pound), at which an English sovereign can be laid down at Calcutta, at Rs. 10-4-10, that of an Australian sovereign at Rs. 10-2-9.

"18. The prices at which Australian sovereigns have been actually sold at Calcutta, according to Mr. Dunlop's papers, give a higher value for the sovereign than this, and the prices of English sovereigns which I have received from Bombay are also rather higher than the price above given.

"19. I do not know that, in the present exceptional state of the markets for produce in India, the present prices of the precious metals are a good criterion of their value. On referring to the prices of silver in the markets of Europe, the intrinsic value of the sovereign in rupees would seem to be about Rs. 10-8 at the present price of silver in London, and about Rs. 10-12 at the price which prevailed some time before 1850."

8. Further, in reference to the possible consideration that the rate should be fixed mainly with regard to the price at which coined gold could be laid down in India from the cheapest and nearest source of supply—namely, Australia—the following passages from the Minute by Mr. Arbuthnot of September 1864 seem to show that regard ought also to be had to the price of coined gold from England:—

"Mr. Dunlop comes to the conclusion that British coined gold can be laid down in Calcutta at Rs. 10-4-10 per sovereign. I have ascertained from the Manager of the Oriental Bank that the actual cost of sovereigns sent by that establishment to India in 1863 was at the rate of Rs. 10-3-4. The difference is important, because much stress is laid in the Minute (by Sir C. Trevelyan) on the economy of direct transmission of gold from Australia to India."

9. Then further adverting to the following passage from Sir C. Trevelyan's Minute that

"the sovereign must be rated, not with reference to its value in England, but solely with reference to the cost at which it can be obtained from the cheapest source of supply, that is from Australia"—

10. Mr. Arbuthnot goes on to say—

"It might be a sufficient practical answer to this suggestion to observe that if the importations of treasure into India are to go on at their present rate ** Australia could not supply all the gold that might be required."

Again, he observes that

"sufficient consideration is not given to the circumstance that, notwithstanding the facilities afforded by the Australian market, it has yet been found profitable to our merchants to send direct from London one-third of the gold required in India."

11. Under all the circumstances, I propose, if His Excellency in Council shall approve, to consult the Governments of Bengal, Madras and Bombay as to the exact rate which shall be fixed above ten rupees, with a suggestion that they refer to any particular person or persons who might be experts in this matter. I also propose that Mr. Dickson, the Secretary to the Bank of Bengal (who is believed to be generally in favour of raising the rate), should be similarly consulted. These several communications should be made confidentially.

12. After these opinions shall have been received and collated, the Government of India will, I submit, be in a position to consider the propriety of issuing a fresh notification with a revised rating of the sovereign relatively to rupees.

13. I would next observe that Section VII of Act XVII of 1835, relating to gold coinage for India, has never been repealed, and is still capable of being put in force. That section runs as follows:—

And be it enacted that the under-mentioned gold coins only shall henceforth be coined at the Mints within the territories of the East India Company:—

First.—A gold mohur or 15-rupee piece of the weight of 180 grains Troy, and the following standard, *viz.*:—

$\frac{1}{2}$ or 165 grains of pure gold, or 15 grains of alloy.

Second.—A 5-rupee piece, equal to a third of a gold mohur.

Third.—A 10-rupee piece, equal to two-thirds of a gold mohur.

Fourth.—A 30-rupee piece, or double gold mohur. And the three last-mentioned coins shall be of the same standard with the gold mohur, and of proportioned weight.

14. By law, then, it would be possible to coin gold pieces, each equivalent to ten rupees, according to the above standard.

In special reference to the above, the following passages may be read from the report of the Currency Commission:—

Para. 26.—The Commission would draw attention to the fact that the price of the gold mohur or Government piece of Rs. 15, as fixed by Act XVII of 1835, is, as nearly as possible, the average market rate of the price of coined gold of the present day.

27. That price, as sanctioned by law in 1835, seems to be the legitimate basis on which to found a gold legal tender coinage for India, consisting of pieces of 10 and 5 rupees respectively, the 10-rupee pieces having the weight of 120 grains, and the 5-rupee pieces 60 grains Troy. *Vide* Section VII, Act XVII of 1835."

15. In connection herewith, the following passage may be read from Sir C. Wood's despatch of September 1864:—

"I see no objection to reverting to a state of things which prevailed in India for many years—namely, that gold coin should be received in the public treasuries at a rate to be fixed by Government, and publicly announced by proclamation. This was the case with the gold mohur or 15-rupee piece from 1835 till Lord Dalhousie's proclamation in 1852, and with other gold coins previously to the reformation of the currency in 1835."

16. There may be doubt as to whether the proclamation of 1852 is any longer needed, and should not now be withdrawn. Mr. Laing's opinion expressed in 1862 may be quoted in support of this view.

17. If gold pieces were now to be coined in the same way as they were from 1835 to 1852, the influx of gold into India, and the existence of considerable quantities of that metal in the country, might ensure the presentation of a sufficiency of gold at the Mints for coinage. Irrespectively of the presentation of sovereigns, bar gold might be bought by the Mints for coinage when the operation could be effected remuneratively.

18. At the same time it might be considered whether power should be taken by the Government of India to declare, at such time as might be deemed proper, the gold coins to be legal tender in the same manner as was done by Sections VII and IX of Act XIII of 1862 for silver and copper coins.

19. Attention may be given to what has been urged in Europe with respect to a combined system of international and decimal coinage, whereby, among other things, the English sovereign would be assimilated to a gold piece having the exact value of 25 francs. It may be remarked that the standard value of such a piece, *viz.*, of 25 francs, would approximate in intrinsic value to the 10-rupee gold piece of 1835, the latter being apparently slightly less than 25 francs, while the sovereign is 20 centimes more. Without commit-

ting myself to any opinion, I would just observe that possibly hereafter a bridge may have to be found to the execution of the plans which have been debated in Europe. The points involved in this part of the subject are worthy of further discussion, and of reference to competent authorities.

20. I apprehend that the question of coining gold pieces, either under the provisions of Act XVII of 1835, or else with reference to some other standard value as might be fixed after enquiry, ought under all the circumstances to be eventually referred to the Secretary of State.

21. In respect to declaring gold coins to be legal tender in India, I incline to think that, before adopting this course, it would be better to await the effect of receiving sovereigns at the revised rating and of the coining of the proposed gold pieces at the Mints.

22. I propose, if His Excellency in Council shall approve, that the above points in reference to the coining of gold pieces in India should be referred confidentially to the Governments of Madras and Bengal, and to the Secretary to the Bank of Bengal, with special reference to the more exact determination of the relative values of gold and silver in India, it being borne in mind that the evidence submitted by the Currency Commission is now two years old, and that the tendency of gold to rise in value, which was remarked by Sir W. Mansfield in 1864 (*vide* note to page 61 of this volume), has somewhat declared itself since he wrote.

XVI.

NOTIFICATION BY THE GOVERNMENT OF INDIA, FINANCIAL DEPARTMENT,
No. 3287, DATED 28TH OCTOBER 1868.

In modification of the Notification by the Government of India, No. 3517 of the 23rd November 1864; the Governor General of India in Council is pleased to direct that from and after the publication of this notification sovereigns and half-sovereigns, coined at any authorised Royal Mint in England or Australia of current weight, shall be received in all the treasuries of British India and its dependencies in payment of sums due to the Government as the equivalent of ten rupees and four annas and five rupees and two annas respectively; and that such sovereigns shall, whenever available at any Government treasury, be paid at the same rates to any person willing to receive them in payment of claims against the Government. The gold pieces stated in section 7 of Act XVII of 1835 will also henceforth be received as above, according to the values stated in that Act.

XVII.

MINUTE BY THE HON'BLE A. J. ARBUTHNOT, DATED 30TH NOVEMBER 1863.

In the letter from the Financial Secretary to the Government of India, under date the 30th June last, the attention of the Madras Government was called to the question of introducing a gold currency into India, which is now again engaging the attention of the Governor General in Council, and we were asked to give our opinion and those of any selected gentlemen, who from their experience might be experts in the matter, on the two following questions :—

1st.—Whether the rate of ten Rupees, at which, under the notification of November 1864, English and Australian Sovereigns are receivable at the public treasuries, should be revised, and if so, what the new rate should be.

2nd.—At what standard value should ten-Rupee gold pieces be coined, supposing such coinage were resolved upon.

2. It was stated in the letter (paragraphs 13 and 14) that at present the Government of India is hardly prepared to recommend the declaration of any gold coins as legal tender, but that it would be open to the Government of Madras, or any of the gentlemen who might be consulted, to advance any special reasons in support of such a declaration, should they deem fit to do so.

3. The Financial Secretary's letter was referred to Mr. Sim, 2nd Member of the Board of Revenue, to the Mint Master, Colonel Carpendale, and to two of the ablest native officials in this presidency, the Honourable V. Ramiengar and C. Runga Charloo. Colonel Orr, the Secretary to Government in the Public Works Department, and who was for some years at the head of the Madras Mint, and is a high authority on currency matters, was subsequently invited to give his opinion on the general question of the introduction of a gold currency.

4. We have now before us the replies of the several gentlemen who have been consulted, except that of C. Runga Charloo, whose onerous duties at Mysore have, doubtless, put it out of his power to comply with our requisition.

5. It appears to me impossible to read these papers, in connexion with the discussions which have already taken place on this subject in former years, without arriving at the following conclusions :—

1st.—That any tentative measure of the nature of that suggested by the Government of India, for promoting the circulation of English and Australian Sovereigns in India by receiving them into, and paying them out of, the public treasuries at a rate to be fixed in supersession of that laid down in the notification of November 1864, would be a very unsatisfactory solution of the difficulties which have hitherto prevented the re-introduction of a gold currency into India, and would be practically inoperative, unless the Sovereign were declared to be a legal tender at the rate fixed on, and unless such a modification was made in the Mint Regulations as would admit of the seign-

orage on the coinage of silver being varied, from time to time, according to the rise or fall in the value of silver in relation to gold.

2nd.—That whatever method be adopted for introducing a gold coinage, the imposition of such a varying seignorage on the silver coinage will be essential, at all events at the commencement, and until gold shall have so far taken the place of silver in the currency as to justify the Government in placing the latter coinage upon the footing of a subsidiary or token coinage, in order that the gold coin may maintain a fixed value in relation to the silver rupee.

3rd.—That it is absolutely necessary that whatever gold coin may be introduced shall be declared to be a legal tender.

6. The reasons which render it necessary, in the event of a gold currency being determined on, whether the coin selected be the English and Australian Sovereign, or a distinct gold coin nearly an equivalent of 10 Rupees at the present relative value of gold and silver, that there shall, for a time at all events, be a varying seignorage on the coinage of silver are clearly stated in Colonel Orr's memorandum. They are briefly these: that the value of silver in relation to gold constantly varies, and at present has a tendency to fall; that in order that the relative value of the two coinages may be maintained at a fixed standard, it is necessary, either that the seignorage imposed on one of the coinages shall be altered from time to time to counteract the effect of the changes which take place in the relative value of the two metals, or that the intrinsic value, that is the weight or fineness of one of the coinages, shall, from time to time, be changed, or that the exchangeable value of one of them shall, from time to time, be altered. The last of these three processes is that which is practically involved in the adoption of the first suggestion made in the despatch now under consideration, but it is proposed avowedly as a tentative measure; and there can, I think, be no question that it would cause much confusion in accounts and great general inconvenience. The second may be dismissed with the remark that it would be practically impossible; and there only remains the first, *viz.*, the imposition of a varying seignorage on one of the two coinages, which is apparently the only convenient mode of meeting the difficulty arising from the variations in the relative market value of the two metals.

7. In regard to the question of declaring any gold coin that may be introduced a legal tender, it appears to me essential that this should be done, if it be only to counteract in some measure the well-known tendency of the people of this country to depreciate the value of coins of large denominations. It is probable that, whatever gold coin might be introduced into the currency without being made a legal tender, in many parts of the country *batta* would be charged on every such coin, when tendered in payment of a debt. Moreover, it is very doubtful whether any coin not a legal tender, and consequently not a part of the legally current coinage of the country, would command that confidence which would enable it to pass from hand to hand, and which is essential to the effective circulation of any form of currency, whether it be gold, silver, copper or paper. In reference to this point Colonel Smith observes that, before the Act of 1835 was passed, the 15 and 10-Rupee pieces which were then legal tender, though not demandable, circulated freely, and were taken without hesitation; but that lately Sovereigns held by the Government of India, although their exchangeable value was superior to 10 Rupees, could not be got rid of from the public treasury at that rate, and were sent home

to England. It was, I think, correctly laid down by Mr. Massey in his Minute of the 2nd February 1866 as an axiom which must be accepted, that if a gold currency were to be introduced "nothing short of the recognition of the Sovereign or some other denomination of gold coin as a *legal tender* would suffice." The same opinion is expressed by the Madras Chamber of Commerce in their letter of the 5th ultimo, and also by the Bombay Chamber in their letter of the 14th September.

8. Subject to the two essential conditions above adverted to, *viz.*, that a varying seignorage shall be imposed upon silver, and that whatever gold coin may be adopted shall be declared a legal tender, it appears to me that there will be no serious difficulty in introducing a gold currency by one of the following methods :—

Either by declaring the English and Australian Sovereign and Half-Sovereign to be a legal tender at 10 and 5 Rupees, respectively, abolishing the seignorage on gold and raising that on silver by such a varying percentage as may, from time to time, be requisite so to adjust the relative exchangeable value of the two coinages as to encourage the importation of gold and its delivery at the Mints, for coinage.

Or by coining gold pieces more nearly equivalent to 10 and 5 Rupees at the present value of silver, providing at the same time for the imposition of a varying seignorage on the latter coinage.

9. The first of these measures has been recently advocated by three officers of considerable experience in currency questions, Colonel J. T. Smith, formerly Mint Master at Madras and Calcutta successively, and Colonels Hyde and Ballard, the present Mint Masters at Calcutta and Bombay. It has the great practical convenience of introducing into India the coin which is in use in those countries with which India has its most intimate relations. One objection to it is, as Major Chesney remarks in his recent work on Indian Polity, that it would cause a rise in the value of the silver coinage and a consequent fall of prices, and that the holders of the existing silver currency would benefit at the expense of the general community by the amount of the seignorage imposed on the new silver currency. The exchangeable value of the Rupee would certainly be raised by the enhancement of the seignorage, and prices would fall in proportion; but the fall, as Colonel Ballard shows, would be very gradual, and would scarcely be appreciable. It would be as nothing in comparison with the rise of prices which has taken place of late years. It would probably be less than that which would be caused by any great extension in the circulation of the paper currency.

10. Another objection which I am aware has been advanced, and which, though not expressly stated, was probably one of the objections in the minds of the Bombay Chamber of Commerce when they designated the artificial methods proposed for raising the value of the Rupee by raising the seignorage on the silver coinage as hardly less objectionable than an actual increase to the intrinsic value of the Rupee, is based upon an idea that the measure would affect exchanges by raising the rate of exchange in the case of Bills drawn in London upon India, and lowering it in the case of those drawn in India upon London. According to the latest quotations the price of silver in London was 60½*d.*, while the Secretary of State's and Mercantile Bills were selling for 1*s.* 11½*d.* per Rupee. Now the Rupee contains silver worth only 1*s.* 10½*d.*, when the price of that metal is 60½*d.*, and it follows that Bills on India were selling in London for some four per cent. more than their equivalent of bullion. The difference is accounted for in a great measure by

assuming that the purchasers of the Bills took into consideration the cost of sending out bullion, about two per cent., and the seignorage of two per cent. now charged at the Indians Mints for the mintage of silver. It thus appears that the effect of seignorage on silver, so long as that metal continues to be the measure of value, and so long as the Rupee is the money of account, is to enhance the cost of remitting money to this country, and that if the present seignorage on silver of two per cent. were raised to six per cent., which would be necessary in order to admit of the Sovereign being brought into circulation at the exchangeable value of Rupees 10, the price of Bills on India would be raised also by 4 per cent., or 2s. 0½d. per Rupee when silver is 60¼d. per ounce, a serious consideration so long as the balance of trade continues to be in favour of India, if the effect adverted to were likely to be of lengthened or indeed of any duration; but those who advance this objection would seem to have overlooked the fact that, so soon as the Sovereign had taken that place in the currency which the advocates of its introduction desire to obtain for it, it would become the real standard of value, even though the Rupee like the Franc in France continued to be the money of account. Thus, supposing the Sovereign to be a current coin in India at the exchangeable value of 10 Rupees, and that there were no seignorage on the coinage of Sovereigns, a merchant in London having to remit the sum of Rs. 10,000 to Madras, would make his remittance not in terms of Rupees, but in terms of Sovereigns, either by remitting 1,000 Sovereigns or bullion of that value, or by obtaining a Bill of Exchange for that sum, and in the latter case the rate of exchange would be determined mainly by the cost of remitting specie or bullion. The remittance would be made in terms of Sovereigns, but if the Rupee were the money of account, it would be entered in the accounts of the person who received it as a remittance of Rs. 10,000, as he could at any moment exchange the 1,000 Sovereigns for Rs. 10,000.*

11. Another objection which has been advanced, though it is not urged in the papers now before us, and which I may remark would apply with equal force to the introduction of the Sovereign into the Indian currency on any

* Since the above was written I have seen an article in the *Money Market Review*, dated the 24th October last, pages 385 and 386, the following extract from which seems to support the theory which I have here ventured to advance.

"If the Sovereign be declared legal tender at £10, an arbitrated par of exchange between India and England will be established that will not fluctuate with the rise and fall of silver bullion in the London market, and thereby the intricacies of commercial exchange between the two countries, created by bankers and bullion dealers only for their manifest advantage, will be avoided; for the par of exchange will mainly depend upon freight, insurance and brokerage, which, being once settled, will continue fixed for long periods, at a rate between three and two per cent., or less, according as England or Australia may export the Sovereign to India."

"The following table shows the net arbitrated par of exchange that will thus be established if the Sovereign be made a legal tender at £10 in India, and, instead of the exchange with India being quoted at the unintelligible rates of so many shillings, pence and eighths per Rupee, bills on India could be sold at a discount varying from two to three per cent. which is easily understood by all and could be readily calculated without the aid of cumbersome tables of exchange:—

Charges at per cent.	Arbitrated par of Exchange per Rupee.	Arbitrated par of Exchange at Discount of
2	24.48	1.96
2½	24.60	2.48
3	24.72	2.92

terms, and still more to the adoption of an international coinage, which of late years has been advocated in Europe, is the alleged risk of a sudden and large demand for Sovereigns, for exportation from England to India, on the occasion of a monetary crisis in the latter country. It is argued that, in case of a pressing demand for coin, Sovereigns might be exported from England to India in preference to bullion with the view of avoiding the delay which the process of assaying the bullion necessarily involves, and to such an extent as to cause serious inconvenience to the English public. The contingency is one which, doubtless, ought to be considered; but it is difficult to suppose that it can have been altogether overlooked by those who have recommended the Sovereigns as the standard of value for India, or by those who have advocated the introduction of a universal currency to be adopted by all the nations of the civilized world. It is, I imagine, one of those cases in which the probable and almost certain conveniences of the course recommended more than counterbalance any possible inconveniences that might occasionally arise.

12. The only objection to the plan of adopting a distinct gold coin for India is that it would postpone, for an indefinite period, the extension to India of the convenience of having a gold coinage similar to that which is said to form half the gold coinage of the world, and which is the coinage in use in those countries with which India is most intimately connected in its commercial and political relations.

13. The objection to the introduction of the Sovereign as a standard of value at any rate, other than ten Rupees, is the confusion it would cause in accounts. This objection is adverted to in the letters from the two Chambers of Commerce, and it appears to be generally shared in by mercantile men. Since these papers came before me, a resolution has appeared in the *Gazette of India*, intimating that Sovereigns will, until further notice, be received into, and paid out of, the public treasuries at Rs. 10-4-0; but at the present price of silver it is difficult to conceive that this measure will be more successful than that adopted in 1864.

14. Reverting to the two questions propounded by the Government of India, I think that in reply to the first it may be safely asserted that Rs. 10-8-0 is the lowest rate, which, at the present price of silver and with the present rate of seignorage, would bring Sovereigns into circulation; but it appears to me to be very doubtful whether, even if this rate were adopted, the measure would succeed, unless the coin were declared to be a legal tender.

15. In regard to the standard value at which the Rupee gold pieces should be coined, supposing such coinage were resolved on, I think that, for the reasons stated in Colonel Orr's memorandum, the 10-Rupee gold pieces should be of 120 grains, of which one-twelfth should be alloy, such additional seignorage being imposed on the coinage of silver as will encourage the importers of bullion to import gold for coinage.

16. On the whole, however, I am disposed to think that to declare the Sovereign a legal tender at ten Rupees, imposing at the same time such an enhancement of the seignorage on silver as may be requisite to bring the Sovereign into circulation at that rate, is the best and most convenient method of introducing a gold coinage that, under present circumstances, can be devised.

17. In the foregoing remarks I have not deemed it necessary to enter into any discussion of the question whether a gold currency is really needed to meet the monetary requirements of India. That such a currency is a great

desideratum is now admitted almost universally; and, this being so, I would observe that the present time, when the price of silver is comparatively low and its tendency is apparently to fall, appears to be a peculiarly favourable time for the introduction of a gold currency, for the comparative cheapness of silver in relation to gold renders it much more easy than it otherwise would be, to reduce the silver currency, by means of an enhanced seignorage on all future coinages of silver, to the position of a subsidiary or token currency, a process which is absolutely necessary if gold is to take that place in the currency which appears to be desirable with reference to the increasing wealth of the country.

XVIII.

FROM THE GOVERNMENT OF INDIA, TO THE SECRETARY OF STATE FOR INDIA,
No. 333, DATED THE 23RD DECEMBER 1868.

By our despatch No. 29 of the 22nd January 1867, we submitted copies of the report by the Commission appointed to enquire regarding the currency, both paper and metallic. We now desire to address you in respect to that part of the subject which relates to gold.

2. It will be in your recollection that by the notification of the 23rd November 1864 the Government of India engaged that sovereigns and half-sovereigns should be received at the public treasuries as the equivalent of 10 and 5 rupees respectively, until further notice. The declared object of this was that "the circulation of British and Australian sovereigns in all parts of British India should be encouraged and facilitated."

3. In his despatch of the 26th September 1864 on this subject, the Secretary of State remarked that there was "no objection to reverting to a state of matters which prevailed in India for many years, namely, that gold coin should be received into the public treasuries at a rate to be fixed by Government and publicly announced by proclamation."

4. Further on he laid it down that—

"the question as regards the introduction of the sovereign into circulation at the rate of Rs. 10 must depend on whether it would be worth the while of any person having a payment to make to carry gold to a mint to be coined into sovereigns, or to import sovereigns, in order that he may have the power of paying a sovereign in discharge of a debt which he may equally discharge with ten silver rupees. It is not probable that at the present relative value of gold and silver, any one would incur the loss which such a proceeding would involve. * * * Whether it would do so, and to what extent, can only be determined by experience."

5. Further again, in reference to the notification above alluded to, he observed:—

"It will, as far as it goes, facilitate the use of the sovereign and half-sovereign in all parts of India; it will pave the way for the use of a gold coinage, in whatever shape it may ultimately be found advisable to introduce it."

6. Before proceeding further, we would observe, in reference to the extract last quoted, that, in fact, India had never been without a gold coinage; that such coinage had been put on a legal footing by Act XVII of 1835, which law had never ceased to be acted upon in respect to the coining of gold, as shown by the Calcutta Mint return for each year up to the present time.

7. In the first instance, some measure of temporary success followed the issue of the notification above referred to, and about 500,000 sovereigns were received into the treasuries. This was, doubtless, owing to the then peculiar state of the exchanges. Of the above amount, a large portion was readily taken out by the public. A portion, however, remained on the hands of Government, and that was remitted to England with a fairly advantageous result. Since that time, however (1864-65), the presenting of sovereigns has almost entirely ceased. The notification has had no effect for some time past. And in the opinion of the best informed authorities it was likely, except under very exceptional circumstances, to remain inoperative.

8. The cause of this is, as we certainly believe, that in the notification the amount of 10 rupees offered as equivalent for the sovereign is not generally sufficient to attract sovereigns, inasmuch as the above rate is somewhat below the market value and the intrinsic value of the sovereign. It is, therefore,

manifest that if any effect is to be given to the principle sanctioned by the Secretary of State in 1864, a rate somewhat above 10 rupees must be offered. This necessity, was, indeed, predicted in 1864 by several authorities in this country, Sir William Mansfield among them. The same conclusion was clearly pointed to by the facts and considerations forwarded with the Secretary of State's despatch in 1864. And this view was further enforced by the Currency Commission in 1866. In short, the object which the Secretary of State desired to attain has not been attained, because the proffered rate was too low.

9. There is also another cogent reason for revising the rate of the notification. By the Act (XVII of 1835) the standard and the conditions for coining gold pieces as equivalent for 15, 10 and 5 rupees are fixed. According to that standard, a 10-rupee gold piece has 120 grains, including alloy; whereas a sovereign has 123½ grains and would be worth not Rs. 10, but Rs. 10 and annas 4, as nearly as possible. This standard, too, is found to be a true and correct one; it has been for many years, and continues to be, fixed by a law which is still in operation. Now there is a manifest difficulty in maintaining a rate such as that in the notification of November 1864, which makes an official deduction from the proper value of the sovereign of 2½ per cent., which places the sovereign at a disadvantage as compared with the British Indian gold pieces, which makes an unnecessary distinction between British and British Indian gold coins to the prejudice of the British coins, and which is at variance with a standard fixed by law in India. It is thus not only very desirable, but necessary, to rectify the official value of the sovereign, so far as the public treasuries are concerned, and to place it on a footing of equality, as regards relative value, with the gold pieces established in India by Act XVII of 1835.

10. In the concluding part of the Secretary of State's despatch of September 1864, a hope was expressed that the receipt of sovereigns at the public treasuries at a rate to be fixed by Government would "establish a preference in favour of the sovereign." Manifestly, it was intended that the sovereign should have at least a full measure of justice. Experience now proves that in order to do it justice, a rate somewhat in excess of 10 rupees must be offered.

11. Looking, then, to all these considerations, to the recommendations of the Currency Commission, to the opinions of those authorities who have been consulted, and especially to the opinion of the able and experienced Secretary of the Bank of Bengal (a copy of which is herewith forwarded), we have determined to offer to receive sovereigns at the public treasuries as the equivalent of 10 rupees and 4 annas, and we have notified the same accordingly.

12. We bear in mind that the facts and considerations adverted to in the Secretary of State's despatch of September 1864, and in the minute by Mr. Arbuthnot forwarded at the same time, point to a higher rate even than 10 rupees 4 annas. It has also been remembered that for some time the current market price of gold has been higher than the last-named rate. If, then, it should appear at first sight that a higher rate than 10 rupees 4 annas should be offered, we would observe that intrinsically it is sufficient; that it is as much as could prudently and safely be offered; that sovereigns received at this rating could, sooner or later, be certainly disposed of without loss to the treasury; that if a higher rate were offered, there might be difficulty sometimes in disposing of the sovereigns advantageously. On the other hand,

there is no probability of the revised notification remaining, like the former one, a comparatively dead letter. Already some thousands of sovereigns at the new rate have been received at the Calcutta Treasury, and more are expected to be paid in.

13. Seeing that the rate of 10 rupees 4 annas for the sovereign approximately corresponds with the standard fixed by law for the British Indian gold pieces; that the coinage of these pieces has been going on to considerable amounts year by year and is still proceeding; that the quantity of these coins taken by the public affords proof of their undiminished usefulness and popularity;—we have determined to receive these pieces at the public treasuries at the valuation fixed by Act XVII of 1835, and we have notified accordingly. Previously to 1852 these coins used to be received at the public treasuries. In that year this practice was discontinued by the order of the Government of India, consideration having been had to the possibility of an excessive influx of gold from Australia. That apprehension has now, of course, passed away. It is thus plain that these pieces may be received at the treasuries without loss to the State and with much convenience to the people. Notwithstanding the disadvantage of not being receivable at the treasuries, these pieces have, during the period which has elapsed since 1852, been coined at the Calcutta Mint to the value of upwards of one million sterling. For this coinage the gold was almost entirely received from the public, and the coins are believed for the most part to have been sent up-country. We shall continue, of course, according to the law, to coin in this way all gold bullion or specie that may be presented for coinage.

14. It will be for the Financial Department to determine from time to time what should be done with any superfluity of sovereigns which might possibly accrue, namely, whether to coin them into Indian pieces or to remit them to England, when such an operation might be favourable with regard to the state of exchanges.

15. It will be for experience to determine whether sovereigns will take a place as current coins, the sovereigns not being the exact multiple of the rupee, or whether, as is most probable, the Indian coins will be preferred. Should the former turn out to be the case, then sovereigns will be taken out of the treasuries as freely as they are paid in at the rate stated in the revised notification. If, on the other hand, the sovereigns are not taken out, the public have an immediate remedy, as referred to above, namely, in turning them into Indian gold pieces. If the latter result should come about, there would be proof of the impossibility of successfully applying the sovereign to currency purposes in India.

16. Heretofore, however, only 15-rupee pieces have been coined, although the law authorises the coinage of 10 and 5-rupee pieces. We propose to make early arrangements for the coining, according to law, of 10 and 5 as well as of 15-rupee pieces.

17. We append copy of our recent notification above alluded to.

18. In conclusion, we hope it will be understood that we have steadily kept in view the advantage of ultimately making gold a legal tender.

19. On a careful retrospect of the whole case, we apprehend that experience shows that what may be termed artificial difficulties have arisen, first, from the prohibition to receive gold at the treasuries in 1852. After that it was attempted in 1864 to cause the sovereigns to pass at a rate which experience shows to be less than the coin is worth. What is now being done is experimental and tentative, in order that we may become sure of the fact

as to the relative value of gold and silver in India before we make the attempt to stereotype the results by a law and commit ourselves finally to the legal tender of gold. It is our belief, however, that the time is not far distant when such a law may be passed. And that the desire for such a law is very general throughout India was proved by the evidence taken before the Currency Commission, and has been further corroborated by all the information which has subsequently reached us.

20. Our honourable colleague Mr. John Strachey does not concur in the substance of this despatch. The Minute which may be recorded by him on the subject will be subsequently forwarded.

XIX.

MINUTE BY THE HON'BLE JOHN STRACHEY, DATED 30TH JANUARY 1869.

In the last paragraph of the despatch to the Secretary of State, dated the 23rd December 1868, on the subject of a gold currency, it was stated that I did not concur in the conclusions arrived at by the majority of the Council, and that the reasons for my dissent would be subsequently recorded.

In October last I objected to the issue of the notification, by which it was declared that Sovereigns would be received at the Indian treasuries in payment of sums due to the Government, at the rate of Rs. 10-4-0 each. The Minute which I then wrote was accidentally mislaid, and I now wish again to state the grounds upon which my conclusions were founded, and which led me to disagree with the despatch of the 23rd December, to the Secretary of State.

2. From Sir Richard Temple's Minute of the 5th June 1868 it appeared that the main object which he had in view was to carry out Sir Charles Trevelyan's idea of making the Sovereign a subsidiary part of the Indian currency. The notification issued by the Government of India in November 1864 declared that it was expedient "that the circulation of British and Australian Sovereigns in all parts of British India and its dependencies should be encouraged and facilitated," and it was ordered that Sovereigns and Half-Sovereigns should be received in all the Indian treasuries as the equivalents of Rs. 10 and 5, respectively. It was stated by Sir Richard Temple that this notification had remained almost inoperative, because the rate at which the Sovereign was valued was too low, and he proposed in his Minute of the 5th June 1868 to revise that valuation. The revision was actually made by the notification of the 28th October 1868.

3. I objected to the issue of that notification, because it seemed to me clear that it could have no effect in bringing about the end at which the Government avowedly aimed,—the circulation of Sovereigns in India as money.

If the rate fixed by the Government gives a value to the Sovereign above its actual market value in relation to silver, Sovereigns will be imported and will be paid into the treasuries. But in this event the Government will be unable to re-issue them, and they can never come into circulation.

If, on the other hand, the rate fixed by the Government be too low, no Sovereigns will flow into the treasuries, and there will be none to issue.

4. If it were possible to fix precisely a rate which would represent the present relative value of the Sovereign and Rupee, then it might be anticipated that, so long as that value remained unaltered, Sovereigns might come into circulation and remain in circulation. But as it is not proposed to make the Sovereign a legal tender, it would have only a bullion value; and as theory and experience alike show, this value must constantly fluctuate. Any fluctuation in the value of the Sovereign above or below the rate fixed by the Government, exceeding a certain small margin, must necessarily lead, on the one hand, to the withdrawal of the coins from circulation, or, on the other hand, to their accumulation in the treasuries.

Exactly the same conclusion will apply to all other gold coins, whether they be coined under the law actually in force in India or not; unless they be

made a legal tender, and unless at the same time they be so rated in relation to the silver coin as to prevent their being sold as bullion, they cannot remain permanently in circulation. No coin that is not a legal tender can have any other character than that of an article of ordinary merchandize, nor, indeed, even if it be made a legal tender, will it lose that character. If the currency consist of coins of two metals, nothing can prevent the eventual disappearance of one of them, unless some system of a subsidiary token coinage, like the silver coinage of England, be adopted.

5. Although the notification of the 29th October 1868 declares the primary object of the Government to be the introduction of the Sovereign into the Indian Currency, it appears from Sir R. Temple's Minute of the 5th June 1868, and from the despatch of the 23rd December to the Secretary of State, that the real intention is to obtain by this means gold for the coinage of new gold pieces under Act XVII of 1835.

6. Even if it be admitted (which I am very far from admitting) that gold can be obtained by such means, and that this is the best way of obtaining it, and that such new gold pieces could at the present time be coined to a large amount without loss to the Government, it seems to me certain, for the reasons already stated, that these coins, not having been declared a legal tender, either could not come into circulation, or could not remain in circulation. But if the first condition of making the coins a legal tender were complied with, would it really be possible to keep gold pieces coined under the Indian Act of 1835 in circulation? I believe that this would certainly be impossible, because the second condition that the gold and silver coins must be properly rated in relation to each other would not be fulfilled.

7. The proposition to coin gold under Act XVII of 1835 was, I believe, first made by His Excellency Sir William Mansfield in his well-known and valuable Minute of March 1864.

His Excellency showed that the market value of gold in India previously to the gold discoveries had been considerably higher than the value assigned by the Act of 1835. He stated that the value of silver under that Act is 5s. 2½d. the ounce. "Mr. Wilson" (His Excellency observed) "estimated the value of silver, and doubtless with correctness, to have been about 4s. 11d. prior to the gold discoveries. At this price the Sovereign is worth very nearly Rs. 11, the British Gold Mohur struck to represent Rs. 15 being on such terms worth more than Rs. 16. Consequently, the Indian Act of 1835 declared silver to be worth 3½d. per ounce more than it really was, as interpreted in the price of gold by the public." His Excellency went on to show that the price of silver had subsequently risen. "Circumstances," he said, "have combined to establish the price of silver at about 5s. 2d. At this present date (March 1864) it is indeed higher, it having reached 5s. 2½d., or closely to the price indicated by the Act of 1835, with respect to the value of the British Gold Mohur of Rs. 15, after allowing for mint charges * *, that is to say, the Rupee has come to have nearly the value in gold which was formerly, but erroneously, attributed to it. This being so, we are perhaps relieved from a very difficult and responsible duty. We are saved from entering into a calculation with an intention of re-adjusting the legal equivalents of gold and silver in India. It appears that we may simply take the basis laid down in the Act of 1835 as we find it, and leave it entirely undisturbed so far as this very important part of the question of introducing the legal tender is concerned."

His Excellency added that it might perhaps be urged that the price of silver was then exceptionally high, and that it could not be maintained, and that the value assigned by the Act of 1835 would be found still to exclude gold as it had done formerly. His Excellency did not share this apprehension. He thought it probable that the higher prices of silver would be maintained, but said that if it should be found after a few years that the rates laid down in the Act were too favourable to silver, "it would then be for the administration of the day seriously to entertain the question of re-adjusting the legal equivalents."

A similar recommendation to that made by His Excellency Sir William Mansfield in 1864 was repeated in October 1866 by the Commission appointed to inquire into the operation of Act XIX of 1861, of which His Excellency was President. "The Commission," it was stated, "would draw attention to the fact that the price of the Gold Mohur or Government piece of Rs. 15, as fixed by Act XVII of 1835, is, as nearly as possible, the average market rate of the price of coined gold of the present day. That price, as sanctioned by law in 1835, seems to be the legitimate basis on which to found a gold legal tender coinage for India, consisting of pieces of Rs. 10 and 5, respectively, the 10-Rupee pieces having the weight of 120 grains, and the 5-Rupee pieces 60 grains Troy."

8. I have referred at some length to the views of His Excellency Sir William Mansfield, because, in the absence of any distinct statement of the reasons which have led Sir Richard Temple to his present conclusions, I presume that the opinions expressed by His Excellency in 1864, and which were repeated by the Commission of 1866, are those on which the late measures have been based.

9. The real question now before us is whether the rating of the value of gold and silver under Act XVII of 1835 is a proper rating to accept for a new Indian gold coinage which shall have a reasonable prospect of remaining current.

There can be no doubt that gold is and has been relatively cheaper in India, as compared with silver, than it is in London. The reasons for this fact have been stated by Mr. Arbuthnot in his "Notes on Sir Charles

* Dated Treasury, Whitehall, 16th September 1864. Trevelyan's Minute on a Gold Currency for India*" most clearly and exhaustively. For facility of reference I shall quote them at some length:—

"On what ground, then, is it supposed that the general law is inapplicable to India, and in what way are we to account for the undoubted fact that gold is relatively cheaper in India, as compared with silver, than in London?"

"The apparent anomaly is owing to the exceptional position which India holds, and is easily accounted for.

"Silver is the standard and the regulator of prices in India to the entire exclusion of gold as a measure of value. It is so generally in the East. Except in the comparatively small communities of Ceylon, Mauritius, and Manilla, and doubtfully in Japan, gold hardly enters into the currencies of the vast regions eastward of the Cape of Good Hope and northward of Australia. It follows that it is comparatively depreciated there when measured by the silver money of those regions. The material of that money, purchased with gold in London, must bear the charges of freight, insurance, interest and mintage, amounting in India to 5½ per cent. (as correctly shown in Mr. Dunlop's paper), before it can be brought

into circulation in India. It is by this silver measure of value, thus enhanced in price, that the cost of the Australian Sovereign is estimated in Sir Charles Trevelyan's Minute.

"Remove the impediment to the concurrent circulation of gold with silver, and the cause of this difference of value between the two metals in the West and the East will disappear. The tendency, at least, must be to an equalization of the general rates of the bullion market in both quarters. It is therefore the price of silver in London, and not the price at which Sovereigns can be laid down at Calcutta from Australia, as estimated in present currency of India, which should be regarded as the point for consideration in this matter.

"And this constitutes the main difficulty in devising any measure for the introduction of a Gold Currency into India. Experience is wanting for a guide. During the first half of the present century there was little variation in the comparative value of gold and silver. The normal price of silver of British standard in London was about 60*s.* the ounce. The new discoveries of gold disturbed this relation, and the price of silver has of late years been subject to so much fluctuation that it would be difficult now to fix an average for the concurrent circulation of coins of the two metals. But this is not all. Although the ultimate value of gold and silver must, as before observed, be derived from the value of the labour employed in their production, their immediate price is governed by the law of supply and demand to an extent and sometimes for a prolonged period of time exceeding that which applies to other commodities. The price of standard silver in London has been mainly influenced of late years by the abnormal requirements for India. When the demand for transmission of silver thither has been great, the price in London has risen; when it has temporarily ceased, it has fallen—on one occasion even to an extent which touched the point at which it would have been profitable to send silver to France. Any measure, therefore, which would lead to the practical employment of gold in preference to silver in the currency of India would cause a cessation in this demand, and lead to a re-action in the upward tendency which has of late prevailed in its price as compared with gold."

10. I think that Mr. Arbutnot has in this passage summed up almost everything of importance that can be said upon the subject. If we introduce a Gold Currency into India, the relative prices of gold and silver in the Indian markets will become approximately the same as the prices that obtain in Europe. If the conditions under which the two metals are used in India be assimilated to those under which they are used in Europe, the relative value of the two metals in the two quarters of the world cannot remain sensibly different; the quantities of the precious metals in Europe, both in actual use and from time to time coming into the market, are likely to be so much larger than the corresponding quantities in India that the European standard of relative value will be that to which the Indian values must constantly tend.

It seems, therefore, clear that no gold coins could be struck in India with a reasonable expectation that they would remain for any considerable time in circulation, unless their intrinsic value were regulated by the average relative value of gold and silver in Europe.

11. It is stated in paragraph 4 of the late despatch to the Secretary of State that the standard laid down in Act XVII of 1835 for determining this relative value "is found to be a true and correct one; it has been for many years, and continues to be fixed by a law which is still in operation."

Again, in paragraph 12 of the despatch, it is said, with regard to the value of Rs. 10-4-0 which has been assigned to the Sovereign, that "intrinsically it is sufficient," that "it is as much as could prudently and safely be offered," and that "there is no probability of the revised notification remaining, like the former one, a comparatively dead letter."

Now, if these statements be correct, my own views must be altogether wrong. The question at issue is not one of opinion; it is a simple question

of fact. The question is whether the relative value assigned to gold and silver in the Act of 1835 is or is not correct at the present time, whether it has been correct in the past, and whether there are reasonable grounds for supposing that it will be correct in the future.

12. Act XVII of 1835 assumes that the value of gold and silver is as 16 to 1. The value given to the ounce of silver

* By this is meant that, assuming 1 oz. of standard gold to be equivalent to £ 3-17-10 $\frac{1}{2}$, 1 oz. of standard silver is, according to the Act, worth one-fifteenth part of that sum, or 62 $\frac{3}{4}$ d.

by the Act is 5s. 2 $\frac{3}{10}$ d.* The number of grains of fine gold in a 10-Rupee gold piece under the Act is 110. The value of a Sovereign containing 113.002 grains of fine gold, expressed in relation to the quantity of

silver in the Rupee, is, according to the Act, Rs. 10-4-4.

Now there can be no doubt that, shortly before His Excellency Sir William Mansfield wrote his Minute in March 1864, the market prices of silver actually prevailing in London closely approximated to those assigned by the Act of 1835. In January 1864 the London price was 5s. 2 $\frac{3}{4}$ d.† It is also true that in

† See tables at p. lvi, Vol. II—Report of Commission to inquire into the operation of Act XIX of 1861.

June 1866, a few months before the submission of the Report of the Commission to inquire into the operation of Act XIX of 1861, the price of silver in London was 5s. 2 $\frac{1}{2}$ d. If these had been the prices which have commonly prevailed, the conclusion stated in the passage which I have just quoted from the late despatch to the Secretary of State would have been fully justified, but unfortunately these high prices of silver have been altogether exceptional.

13. I invite attention to the tables showing the average prices of silver for a long series of years, published in the Appendix to the Report of the Commission to which I have just referred.‡ These tables show that for the 25 years between 1819 and 1843 the average price of standard silver in London was 4s. 11 $\frac{1}{8}$ d. per ounce, and that the average value of gold to silver was 1 to 15.604.

‡ Vol. II, pp. lii to lvi.

In the 22 years between 1844 and 1865 the average price of silver was 5s. 0 $\frac{1}{2}$ d. and the value of gold to silver was 1 to 15.358.

In no single year since 1820 has the average relative price of silver in London been as high as the price assigned by the Act of 1835; and it will be seen from the tables that it has only been on the most rare occasions that such prices have been occasionally touched. Since the Report of the Commission of 1866 was submitted, the average price of silver has shown a tendency rather to fall than to rise. Since July 1866 the price has never gone above 5s. 1d. During the whole of last year it was about 5s. 0 $\frac{1}{2}$ d. The recent stoppage of the Bills of the Secretary of State on the Government of India appears to have caused an increased demand for silver in London for remittances, and a small rise in the price of silver has taken place, the last quotations being 5s. 0 $\frac{3}{4}$ d. to 5s. 0 $\frac{1}{2}$ d.

14. The Financial Department has been good enough to furnish me with the following table. The figures illustrate, I think, in the most forcible

manner the facts regarding the prices of silver which I have just been stating:—

Price of Silver per standard ounce containing 444 grains fine Silver.		Relative value of Gold to Silver (1 oz standard containing 440 grains fine = £3-17-10½).	Number of grains fine Gold in a 10-Rupee piece equal to 1,650 grains fine Silver	Equivalent of Sovereign containing 113 grains fine Gold in Rupees of 165 grains fine Silver.			Equivalent in pence of a Rupee containing 165 grains fine Silver.		
£.	d.			Rs.	Rs.	A.	P.	d.	
6	0	15·71 to 1	105·01	10·76	—	10	12	2	22·30
5	0½	15·65 „ 1	105·45	10·73	—	10	11	6	22·40
5	0¾	15·58 „ 1	105·89	10·67	—	10	10	9	22·43
5	0½	15·52 „ 1	106·32	10·63	—	10	10	1	22·53
5	1	15·45 „ 1	106·76	10·58	—	10	9	3	22·67
5	1½	15·39 „ 1	107·20	10·54	—	10	8	8	22·76
5	1¾	15·34 „ 1	107·64	10·50	—	10	8	0	22·85
5	1¾	15·27 „ 1	108·07	10·46	—	10	7	4	22·95
5	2	15·21 „ 1	108·51	10·41	—	10	6	7	23·04
5	2½	15·14 „ 1	108·95	10·37	—	10	5	11	23·13
5	2½	15·08 „ 1	109·39	10·33	—	10	5	2	23·23
5	2½	15·02 „ 1	109·83	10·29	—	10	4	8	23·32
5	3	14·96 „ 1	110·27	10·25	—	10	4	0	23·41
5	3·96	14·71 „ 1	112	10·08	—	10	1	0	23·76
5	4·575	14·60 „ 1	113	10	—	10	0	0	24

15. If the conclusion already stated be correct, that supposing serious measures to be taken for introducing a Gold Currency into India, the relative prices of gold and silver will approximate to those which obtain in Europe. I think that the foregoing figures show that it is impossible for the Government to coin gold pieces to a large extent, which shall be a legal tender, at the rates laid down in Act XVII of 1835. Take, for example, the price of silver in London according to the last quotations, 5s. 0½d. According to this rate the actual relative value of gold and silver is, in London, 15·52 to 1; according to the Act it is 15 to 1. According to the actual market rate in London 10 Rupees in silver are equivalent to 109·76 grains of gold; according to the Act they are equivalent to 110 grains. According to the market rate a Sovereign is worth in London the quantity of silver contained in Rs. 10-10-1; according to the Act it is worth Rs. 10-4-4.

Even if it could be admitted that, in consequence of the present depreciation in the value of gold in India, pieces of R10, containing 110 grains of pure gold, can be coined without loss to the Government—and this as I shall hereafter show is not the case—it is clear that any increase in the value of gold would lead at once to the demonetization of the gold pieces. Now the introduction of a gold coinage must necessarily cause an increase in the demand for gold, and a reduction in the demand for silver, and therefore a

gradual rise in the value of gold and a fall in the value of silver ; there would thus be a permanent and an increasing tendency to prevent the gold pieces remaining in circulation at the value which had been placed upon them.

16. I am aware that it has been argued that gold might be introduced into India, directly from Australia, at a cheaper rate than from England, and that India might consequently hope to obtain its gold at a price which would admit of a relative rating of gold and silver such as that fixed by Act XVII of 1835. But it must be remembered that the necessary tendency of trade is to seek for the largest possible profit, and that the reduction of price which would be made by the owner of Australian gold would never go beyond the amount which would just suffice to underbid the London seller in the Indian market. It would, therefore, still be true that the prices of Europe would regulate those of India, and that there would be a constant tendency towards an assimilation of the relative values of gold and silver in India and in Europe, although possibly gold might be, to some small extent, cheaper in India.

17. I must now refer to the question of the economic possibility of coining gold pieces under Act XVII of 1835 from gold obtained under the operation of the notification of October last.

That notification offers Rs. 10-4-0 for a Sovereign. The current market value of the Sovereign is quoted at Rs. 10-4-0 to Rs. 10-6-0. I understand that, as a fact, Sovereigns are not procurable at Rs. 10-4-0, and that the number received until now has been inconsiderable.

Again, the present quotation of bar gold, 23 carats fine, is Rs. 15-8-0 per tolab. The equivalent cost of a full weight Sovereign would be Rs. 10-15-0, so that the bar gold would be about 1 per cent. cheaper than the Sovereign. But in fact the Sovereigns received by the Government will not be full weight, and I am informed that 122½ grains, which is the minimum legal weight, must be taken to represent the average Sovereign received. From this again must be deducted the loss on the first melting of the Sovereigns, which is about ¼ per cent., making a total loss by deficient weight of 1 per cent., so that there would be a total relative loss on the coining of gold obtained from the Sovereigns as compared to bar gold of about 2 per cent.

The calculation of the actual cost of coining new gold pieces shows that, including the minting charge, which is about 1 per cent., there will be an absolute loss of 1.42 per cent. on the conversion of Sovereigns at 122.5 grains into Gold Mohurs of Rs. 15 at 180 grains.

On the whole it is plain that the Government cannot coin gold pieces under Act XVII of 1835 from Sovereigns received under the notification of October, except at a cost to the State of 1½ per cent., and inasmuch as such gold pieces would necessarily be withdrawn from circulation immediately after their issue, there would be a constantly recurring and entirely fruitless drain on the treasury in attempting to carry out the proposed measures. My authority for the figures given in this paragraph is the highest that could be quoted,—that of Colonel Hyde, the Mint Master in Calcutta.

18. A few words may be said in regard to the quotations of the prices of the various sorts of gold in the Indian markets. A comparison of these one with another is sufficient to prove that they give but an indifferent standard for estimating the true value of gold. The price of pure gold during the last month at Calcutta, determined by the prices of English Sovereigns

Australian Sovereigns, bar gold and Gold Mohurs, has varied as much as 2½ per cent., and this plainly shows that the quotations refer to the sums to be paid for certain coins or descriptions of gold, and do not supply what may properly be designated a correct market value of gold bullion. This is another proof, if proof be needed, of the impossibility of regarding the present market price of gold as a test of its ultimate value in relation to silver, were a Gold Currency established.

19. It is on these grounds that I object to the notification of October last, and on which I doubt the possibility of applying with any useful effect the provisions of Act XVII of 1835 to the coinage of gold. I believe that Act, so far as it declares the relative value of gold and silver, to be altogether obsolete. I think that the late measures must be inoperative for any useful purpose. I do not believe that they can in any way promote the object of establishing a Gold Currency in India, and I fear that their practical effect can only be to cause delay and to prevent the accomplishment of the objects which are aimed at.

20. There is one other point connected with this part of the subject that it is now necessary to notice. In the despatch of the 23rd December, 1868, to the Secretary of State, stress is laid on the fact that the coinage of gold pieces under the Act of 1835 has been for many years actually going on. It is stated that the "coinage of these pieces has been going on to considerable amounts year by year and is still proceeding," and "that the quantity of these coins taken by the public affords proof of their undiminished usefulness and popularity* * It is thus plain that these pieces may be received at the treasuries without loss to the State, and with much convenience to the people. Notwithstanding the disadvantage of not being receivable at the treasuries, these pieces have, during the period which has elapsed since 1852, been coined at the Calcutta Mint to the value of upwards of one million sterling."

I must express my inability to understand how these views can have been entertained. It is certainly true that gold coins continue to be struck at the Indian Mints, but it is well known that those coins never come into circulation. In one sense it is true that the fact that the coins are struck is a proof that they are useful. But this is a very partial statement of the facts. The gold pieces thus coined have notoriously had a mere bullion value, and almost the sole practical effect of turning the gold into coin has been to give to the gold a certificate of weight and quality. There is no gold coin now current in India, and the gold piece of the nominal value of Rs. 15 coined under Act XVII of 1835 varies in actual market value from about Rs. 15-4-0 to Rs. 16. I have just ascertained that, at the present time, the average price in Calcutta is about Rs. 15-5-0. The possibility of coining under the Act of 1835 gold pieces which shall pass current at their nominal value in the face of these facts appears to me to be altogether out of the question.

21. Although it is not my duty to attempt to initiate measures which fall within the province of the Financial Department of the Government, I think that I may properly take this opportunity of stating briefly the opinions which I myself hold in regard to the steps which ought to be taken to bring about the introduction into India of a Gold Currency. I shall assume that this object is in itself desirable, and I do not propose to discuss that part of the question.

22. For the reasons which I have already stated I assume that no gold coin can now be struck with a reasonable expectation that it will be retained in circulation, unless two conditions are fulfilled: firstly, the gold coin must be a legal tender, and, secondly, its intrinsic value must be regulated by the average relative value which gold bears to silver in the markets of Europe.

It would be, I believe, very unwise to commence the coinage of gold with the intention of regulating from time to time the intrinsic value of the gold piece according to the varying value of gold in the Indian market. To do this would involve the necessity of gradually reducing the weight of the gold coin, as its value rose with its enlarged use, and the effect of this on the character of the coinage would be extremely objectionable. We ought to coin no gold pieces to form a portion of our currency, unless we can reasonably expect that they will remain in circulation for a considerable time, say for at least 10 or 15 years.

23. The result of coining gold pieces in India, the value of which was regulated by the present average relative value of gold to silver in Europe, would apparently be as follows. Assuming this relative value to be 15.45 to 1, and the value placed on silver to be 5s. 1d. per oz., our 10-Rupee gold piece would contain 106.76 grains of fine gold. I give these figures only to show approximately the values which I believe ought to be assumed for gold and silver. The exact figures to be adopted would, of course, require careful consideration.

If we were now to coin gold pieces of this description, we should, in consequence of the present depreciation of the value of gold in India, be coining pieces the nominal value of which would be in excess of their actual intrinsic value. Such coins could obviously not come into use, unless they were made legal tender, and if they were made a legal tender, we should have created a token Gold Currency.

I believe that the proper course to adopt is to coin such pieces, making them, so far as the public is concerned, a legal tender only up to a certain limited amount, say Rs. 200, while they would be received by the Government without any such limit in payments due to itself. The latter condition would make it impossible for the Government to force into circulation an amount of gold in excess of the real wants of the public, and would prevent the Government from profiting by the issue of a depreciated coinage.

If the Government were not obliged to receive the gold coins without limitation, and there were any over issue, the result would be that gold would accumulate in the hands of traders and bankers, who would be forced to receive the gold in small payments made to them, but might be unable to discharge their own debts with it, in consequence of gold being a legal tender to a limited amount only. The condition that has been proposed would give security against anything of this kind happening. The power of the Government to issue gold being thus limited, all gold in excess of the wants of the community would flow back into the Government treasuries, where it would accumulate. Thus, the actual quantity of gold remaining in circulation might be expected to be just sufficient to supply the wants of the public.

When by the gradually increasing employment of gold in the currency, and the consequent increase of demand, the market value of gold had risen, as I have already said it must do under such circumstances, and an equaliza-

tion of the relative values of gold and silver in Europe and in India had been established, the time would have arrived for declaring gold to be the exclusive standard, and for placing the silver currency in the subsidiary position which was formerly assigned to the gold. The process of change in the currency would go on without disturbance of values, and the final alteration of the standard might be made without shock.

The process now proposed with respect to the coinage of Indian gold pieces is identically that which has been followed in respect to the subsidiary token silver coinage by the European powers which have adopted the franc monetary unit, under the Convention of the 23rd December 1865 ; and the gold token currency of India would hold an analogous position to the silver token currency of England. The Government would exclusively regulate the coinage of gold, and the Mints would be open to the public, as at present, for the coinage of silver.

24. Before concluding this Minute I wish to say a few words regarding what I may call the proposals of the Indian Mint Masters on the subject of a gold coinage. Colonel Eillard and Colonel Smith have proposed to put a heavy seignorage charge on the coinage of silver, whereby they expect that the inducements to import silver for coinage will be diminished, and a corresponding advantage given to the import and coining of gold. By this means the value of the Rupee would be increased to such an amount as would make it equivalent to the tenth part of the pound sterling, and the English Sovereign could thus, it is said, be made a portion of the Indian Currency.

It may be admitted that the results thus contemplated could be obtained by the means which have been suggested, though I doubt whether the seignorage named by Colonel Ballard would be sufficient, for I consider that he has under-rated the value of gold.

This proposal not only provides for the introduction into India of a Gold Currency, but at the same time adopts the English pound sterling as the new unit of value, to suit which the value of the Rupee is to be altered.

25. For my own part I consider that the present time is peculiarly inappropriate for proposals having in view such a change in the Indian monetary standard as shall assimilate it to the pound sterling. In the discussions which have lately been going on regarding an international coinage, I believe that no authority of any considerable weight has seriously looked to the adoption of the pound sterling as a practical means of obtaining a common unit.

If a gold coinage is now to be introduced into India, I think that there can be no doubt that it should be based on the Rupee unit.

26. The essence of the Mint Masters' scheme is that a Gold Currency shall be forced upon India by an artificial contraction of the Silver Currency. Having created a dearth of silver money, it is hoped that the country will take to the use of gold. I cannot believe that such a proposal could ever be seriously entertained.

The artificial enhancement of the cost of silver money, and the necessary simultaneous restriction of the circulation, would be followed by an increase in the value of the silver Rupee and a corresponding fall in prices. Silver money is the money used in the most important transactions of the people of India, and it would evidently require a long time to bring about such a change as the substitution of gold for silver. When we consider what

serious mercantile disturbance and danger has been caused in late years by the simple demand for an increased supply of coin to meet the requirements of the internal trade of the country under peculiar circumstances, it seems to me that it would be extreme infatuation for the Government to adopt any measure which deliberately aimed at the contraction of that portion of the circulating medium which is most required for the purposes of the commerce of the country.

Nor is this the sole or perhaps the most serious objection to these proposals. Their adoption would cause a general fall in prices, which would especially affect the great producing classes, and might lead to results of a disastrous character.

27. I have perhaps referred to these proposals at greater length than may seem necessary. But I have done so because I think it extremely important that whatever measures be adopted for the introduction of a Gold Currency should be so taken as not to disturb the standard of value. I believe that everything which is required for bringing a gold coinage into use may be accomplished without any such result, and I deprecate attempts to bring about an alteration in the relative values of the precious metals by restrictive measures.

While I admit that the late proposals of Sir Richard Temple are not open to this reproach, they are in my opinion, seriously objectionable, because they fail to recognize the relation of value which actually exists.

28. I request that this Minute may be forwarded to the Secretary of State, in continuation of the despatch of the 23rd December 1868.

XX.

MINUTE BY HIS EXCELLENCY SIR WILLIAM MANSFIELD, DATED 9TH FEBRUARY 1866.

Having, at the instance of the late Governor General, Sir John Lawrence, been much consulted by Sir Richard Temple before he wrote his Gold Currency Minute of the 5th of June, 1863, which is the basis of the arrangements lately made, and pointed allusion having been directed towards my opinions by the Hon'ble Mr. Strachey in his Minute of the 30th January, 1869, it seems incumbent on me to offer some observations in answer to the latter.

In the first place, it may be observed that Mr. Strachey seems to have misappreciated the character of the measures described in the despatch to the Secretary of State, No. 333, dated 23rd December 1868. He would appear to consider those measures final. They are, on the contrary, avowedly of an* experimental character and devised for the purpose of obtaining experience with regard to the actual relative values of gold and silver before the Financial Department can be in a position authoritatively to recommend a law embodying the legal tender of gold.

We need only refer to Mr. Strachey's Minute to be aware of the uncertainty prevailing on this point according to the different views and arguments of various authorities.

It may be as well to recapitulate the artificial difficulties created on several occasions since 1835 with regard to gold. Thus, prior to that year, gold was apparently in India, in practice, a legal tender. But the Act, XVII of 1835, whilst declaring certain relative values between the two metals, gold and silver, deprived gold of the property of a legal tender.

In 1841, although gold still remained without the property of legal tender, Government announced itself to be willing to receive Indian gold coins at the treasuries according to the values declared in Act XVII.

In 1852, influenced by the facts of a trifling accumulation of gold in the treasuries, and the panic which was felt throughout the civilized world on account of the then recent gold discoveries, a panic which in the measures of Government affected Belgium and Holland, as it did the administration of India, the privilege granted in 1841 of receiving Indian gold coins at the treasury according to the values stated in Act XVII was withdrawn. In the course of the years 1863 and 1864 an urgent demand for a gold currency again arose in India, and the matter was much discussed.

Actuated by theories, the soundness of which may be disputed, Sir Charles Trevelyan, the Financial Member of that day, induced the Government of India to commit what is now believed by everyone to have been an error, namely, to make the attempt to introduce the British Sovereign into circulation in India at the rate of Rs. 10, which is below its value.

Sir Charles Trevelyan apparently omitted to see that, when he led the Government of India to adopt his advice, he was declaring gold to have in practice a less value than that assigned to it by the only law we have with

* See paragraph 19 of despatch.

regard to a metallic currency, *viz.*, Act XVII of 1835, as well as by average market rates.

As was foreseen, the action taken by the Government of India in 1864 remained without results, for the very simple reason that the Sovereign, according to the weight of gold contained in it, is of more value than Rs. 10.

After this short detail it is evident that the matter of the circulation of gold in the form of coin, whether Indian or British, was in such a tangled state that before any step could be taken towards legal tender it was necessary to unravel the complications, and to resort to the experience of facts with regard to the positive relative values of the two metals.

Accordingly, when I was consulted in the spring of last year, it appeared to me that there was but one thing to do, *viz.*, to assume tentatively that Act XVII did generally represent the relative values, and therefore to repair the first omission of Sir Charles Trevelyan in his consideration of the Sovereign.

The conclusion then was that if the Sovereign was to have a declared value, that value should be about that which is exhibited in Act XVII with respect to the Indian pieces. As a matter of fact, the declared value is slightly less.

This course was an eminently prudent one, because, although declaring the value of the Sovereign to be higher than that stated by Sir Charles Trevelyan, it is still below the value given as the average since 1835. This average stands at 10 rupees 7 annas and 10 pies for the thirty years from 1835 to 1864, inclusive, notwithstanding that, as shown by the various mercantile authorities who have been consulted, the Sovereign can be generally laid down in India at rates varying from 10 rupees 3 annas to 10 rupees 5 annas. The table* of averages from which this is taken is given in the Appendix to this Minute. It is curious to note that if the average of the price of Sovereigns be struck from the year 1835 to 1864, it is, as stated, 10 rupees 7 annas 10 pies. But if we take the average from the year 1850 to 1864, inclusive, it stands at 10 rupees 3 annas 9 pies. It will, I think, be found, with regard to these facts, that whatever may be the price of silver in England, Act XVII of 1835 does, at all events now, approximately represent the relative values of gold and silver, if we can divest them of other conditions of trade, as shown by the rates of the exchanges.

In practice, however, the professional banker assures us that this is very difficult.

Thus, it happens that at certain states of the exchange the rupee sinks to 1s. 9d. in value, whereas at others it has been known to rise to 2s. 3d., it being a matter of fact that the price of the Sovereign, as shown in exchange, has been liable to vary as much as 25 per cent. according to the balance of trade being for or against India.

This variation, however, would not seem to rest on the value of gold as a commodity, but on the fact that as England has a gold standard and India a silver one the vicissitudes of trade between the two countries come to be stated in a form involving mention of the two metals. But precisely the same change

* This return was rendered necessary in 1864, in order to meet Sir C. Trevelyan's proposal to reduce the price of gold arbitrarily in India, while now, oddly enough, it comes into play to prevent alike reduction in that of silver in the same country as suggested by Mr. Strachey.

in the value of the Rupee, as regards operations of foreign exchange, would take place if England had a silver instead of a gold standard. The statement would, however, then be made in other terms, *viz.*, with reference to the shilling only, or whatever coin might denominate the public debt in England.

It appears to me that I need not enter further into this part of the subject beyond saying that we must be careful not to confuse the results of exchange with the price of gold.

The business which lies before us is to ascertain by experience, so far as may be possible, whether or not Act XVII, the only currency law we have, does, approximately, represent the value of gold and silver, respectively, or if it requires alteration.

I do not know that any other means lie open to the Financial Department for obtaining the necessary experience in the want of which, as stated by Mr. Arbuthnot, is found the whole difficulty of the question before us than in pursuing the course which has been lately adopted by the Government of India.

This course being eminently tentative and experimental for the purpose of resolving the point of relative value, it appears to me to be unnecessary to follow my hon'ble colleague in his argument in which he shows, with much ingenuity, that the price of the Sovereign, stated in the notification recently issued, which, as said before, follows Act XVII of 1835 has been fixed too low with regard to the facts of value presented by silver and gold in the English market.

It remains only to observe that the gold merchants (see the evidence of Messrs. Claude Brown and Dunlop in the papers relating to a Gold Currency) take a different view, and that they consider they can import Sovereigns, at an advantage to themselves, at rates varying from R10-3-0 to R10-5-0. Thus Mr. Claude Brown* stated that he could lay down Australian Sovereigns in Calcutta at Rs. 10-2-11. Mr. Dunlop comes to the conclusion that British Sovereigns can be laid down at Calcutta at Rs. 10-4-10; but it was ascertained in 1863 that the actual cost of Sovereigns sent by the Oriental Bank to India was Rs. 10-3-4. But very recently a communication was received from Mr. Christian, a Broker in Bombay, in which he affirmed that Sovereigns could be laid down at that place at about Rs. 10-3-0.

I therefore submit that the facts, as we know them in practice, are generally against the Hon'ble Mr. Strachey's position, that the Act of 1835

* I think it right to add in a note Mr. Claude Brown's own words, it being remembered that he is a merchant of much eminence and ability. Extract from a letter to Sir C. Trevelyan, dated May 23th, 1864:—"We may fairly assume that the average selling price of gold over a series of years in this market is an index to the rate at which, with reference to the state of the exchanges, it can profitably be laid down here, and that if the prices ruling afforded anything more than a moderate profit, the effect would be seen in a great addition to the supply, and a general reduction of value to a level, corresponding to that ruling in the other markets of the world."

I have taken the average of our own sales of Australian gold in the years 1861 and 1863, and find it to be Rs. 14-14-3 per sicca mohur of 22 carat fine. If we include the first four months of this year, during which the value was exceptionally affected by the monetary crisis, the average is reduced to Rs. 14-13-9½ on total sales of Rs. 17,02,708.

To check this result I have taken the average of the quotations during the three years from our monthly Circular, and find it to be Rs. 14-13-4, so that I think we may fairly conclude that the value of gold of standard quality has during the past three years, been as nearly as may be Rs. 14-14-0 per sicca mohur.

At this price, the 5 dwts. 3½ grains, which an English Sovereign contains, will be worth Rs. 10-2-11, and when to this is added seignorage at the rate of 1 per cent., the cost of the coin will be Rs. 10-4-6."

does not approximately represent the relative values of the two metals in India.

But, under the circumstances stated in the early paragraphs of this minute, I, for one, have been most unwilling to proceed arbitrarily or summarily, and I am led to concur in the opinion of Mr. Arbuthnot that we require experience in order to determine the inconsistency which appears to rule in the values of the metals, as shown in the European and Indian markets, if such inconsistency exists, which I greatly doubt for reasons which will presently be shown.

My own view has generally inclined to the opinion that, on the whole, the value of gold might possibly rise in India. That opinion was expressed in 1864, and I have as yet no reason to depart from it. Nevertheless, there is no other conceivable criterion for our immediate and present guidance than the facts of value as accepted by the gold merchants.

It is not irrelevant to observe that, while Mr. Strachey finds fault with the rate which, according to his views, is below the real value of gold, the contrary has been suggested both in Bombay and Calcutta, *viz.*, that owing to the want of a legal tender the treasuries might come to be encumbered with gold, because the public would be unwilling in certain states of the exchange to take the Sovereigns from the treasuries at the rate stated in the notification, *viz.*, Rs. 10-4-0. Very recently I was consulted on the practical value of the objection thus taken, and as to the measures which might be necessary in consequence.

Mr. Strachey's Minute, on the one hand, and the questions put by Mr. Balfour, of the Bombay bank, on the other, are, I think, not bad evidence that the Government has struck the proper mean by which to obtain the experience required before proceeding to the step of declaring a legal tender of gold.

It is to me a matter of regret that the question of a Gold Currency for India was encumbered by the interpolation of the English Sovereign in 1834, which is coined for a different system in another country. The advantage of circulating the Sovereign in India, except as an auxiliary to an Indian coin, has never made itself apparent to me. Nevertheless, the Sovereign has many friends, and, owing to the step taken by Sir Charles Trevelyan, it cannot now be summarily banished, until its incompatibility with Indian wants has been proved by experience.

To have given it a higher value for receipt and issue at the Government Treasuries than Rs. 10-4-0, without the safeguard of legal tender to compel its issue, would, doubtless, at times, have caused very considerable difficulties to the treasuries, for they would have been made the recipients of Sovereigns for the furtherance of mercantile speculation, and the Sovereigns would then have often remained as a dead weight in the treasuries, because of the high Government value attributed to them. But further, to have given them a higher value, would have been to reiterate Sir Charles Trevelyan's mistake, and to attribute to coined gold in India other official rates than are shown by the only metallic currency law we possess.

It will be understood, after the foregoing statement, that I am unable to comprehend Mr. Strachey when he says that Act XVII of 1835 is entirely obsolete so far as it declares the relative value of gold and silver. I think

I have shown that the framers of that Act have very fairly anticipated the proximate relative values of the present day.

With reference to the late measures being inoperative for any useful purpose, as declared by Mr. Strachey, he will surely admit that if those measures lead us to the facts we want, with respect to the truth or otherwise of the values stated in Act XVII, those measures will not have been altogether devoid of utility.

For if the Sovereigns come and go at the notified rates, it will be apparent that the Government notification has properly determined their value. If they accumulate in the treasuries, it will follow that they are too dear in price. If, thirdly, they are not paid into the treasuries, and the late measures turn out, as supposed by Mr. Strachey, to be simply without practical effect, we shall be satisfied that the price of gold as determined by Act XVII of 1835 is not high enough.

With regard to paragraph 17 of Mr. Strachey's minute it is to be noted that the notification of October has not been without some result. Thus I am informed that in the month of January about 80,000 Sovereigns were paid into the treasury at Calcutta, about a tenth of that sum having been withdrawn by the public.

Assuming Mr. Strachey's calculations about the prices of different kinds of gold to be correct, the fact of the Sovereign being 1 per cent. dearer than bar gold is not surprising when its quality of money and the demand for coined gold, whether in India or for travellers leaving the ports of embarkation, are fairly considered.

According to the instructions lately given in the Financial Department, the Sovereigns paid into the treasury will retain their present form if the public should wish to take them. If there be an accumulation on the other hand, a proportion will be thrown off in Indian coins. According to our present means of information the Indian coins appear to carry a premium in the market owing to local circumstances which is not warranted by their intrinsic value, but is probably to be ascribed to the dearth of Indian coins.

These points have been lately very carefully considered by Sir Richard Temple, Mr. Chapman, the Financial Secretary, and myself. The instructions subsequently issued for giving practical effect to the notification in certain details, on which Colonel Hyde, the Master of the Mint, required information, account satisfactorily, I believe, for any doubts which might arise.

As yet Government has not sanctioned the purchase of bar gold for the purposes of coinage. This operation I believe to be desirable. There is only one objection that I am aware of, that being that Colonel Hyde's machinery is so deficient that he is positively not in a position to comply with all the obligations imposed on him by law, *viz.*, of coining gold according to certain denominations of coin as required by Act XVII.

This fact has a peculiar bearing on Mr. Strachey's argument; for it is true that much loss of labour takes place in the coinage of gold at Calcutta owing to imperfect machinery, as lately explained by Colonel Hyde. This imperfection is now in the course of being repaired, but many months must elapse before the deficiencies can be set right by supplies from England.

Another item of the alleged loss is, I think, to be found in Colonel Hyde's method of computation. Now it is true that the minimum legal weight of a Sovereign is 122½ grains. Colonel Hyde makes his computation on the basis

that all the Sovereigns presented are of minimum legal weight. This method may be convenient for account purposes, for all I know to the contrary, but I think it is plain on the surface that such a mode of computation must be inconsistent with fact. Thus I should imagine that the sales of Sovereigns which come in large remittances from England and Australia, and are probably often coined for the purpose, are much more likely to be full weight than otherwise. At least, considering that Sovereigns have but little circulation in India, we may take it for granted that if they are presented in large quantities at the treasury, at least half of them will be full weight. Thirdly, I understand 1 per cent. of Colonel Hyde's computation to be imaginary or nearly so, that is to say, that it consists of the 1 per cent. of seignorage which is charged to the public for the coinage of gold bullion.

For it is clear that if Government occasionally send bullion to the Mint for coinage, it is little else than a matter of account whether the seignorage be charged or not. It is curious, when investigating this matter, to find that the re-coinage of Sovereigns is slightly cheaper than the coinage of bar gold, because in the former, mixture with alloy has already taken place, which has to be done with the latter before it is fit for manufacture. In short, the Sovereigns supply their own alloy.

On the whole I believe it may be said with accuracy, that whatever real loss may take place in the re-coinage, provided the machinery be effective, it is so trifling as to be almost inappreciable. At least such was the result left on my mind after a careful enquiry into these points recently held by Sir Richard Temple and myself with the Master of the Mint.

I think a further argument might be maintained in favour of showing that Sovereigns received at Rs. 10-4-0 would, when re-coined according to the rates of Act XVII, show an actual profit sufficient to cover the possible loss on light weight Sovereigns and the expense of manufacture. For this I would refer to the facts stated by Mr. Claude Brown as set out above.

I am unable to agree with my hon'ble colleague with regard to the inexpediency of producing Indian gold coins at the Mint.

In the first place, to produce these Indian gold coins is strictly according to law and is a boon to the public. Secondly, it will be in his recollection that, till very recently, there was a misapprehension about the Mint operations. It was believed that the public had entirely ceased to bring gold for coinage. If I recollect rightly, the alleged cessation was one of Mr. Strachey's reasons, in the course of conversation, for declaring Act XVII to be obsolete as affecting gold.

Enquiry, however, proved that the notion of cessation was incorrect, and that, notwithstanding the imperfection of the Mint, the fact of gold not being a legal tender, and the further one of Indian gold coins being in no manner receivable at the treasuries, the public, nevertheless, does insist on the right conceded according to Act XVII, *viz.*, to demand Indian gold coins in exchange for its bullion, upwards of a million having been thus coined since 1852, the date of Government declining to take those coins in payment of Government dues.

Knowing as we do, besides, that the Native Mints in the Independent States turn off a large quantity of gold coins, I confess that, to me, this fact has a significance more important than I can describe as showing how the Government of this country has hitherto neglected its duty in furthering the

advancement of a Gold Currency, or, at least in actively supplying a gold coinage.

For a Gold Currency it is indispensable that not only gold should be in the country, as we know it to be, but that it should also exist in the form of coins.

By the measure of 1852 the Government did what it could to diminish the demands for such coins, and therefore to lessen the operations of the Mint. Notwithstanding this, however, we see that the thirst for Indian gold coins has still prevailed, and that, owing to the dearth of them, these very coins bear a fictitious value in the market.

I am therefore clearly of opinion that, while giving what may be called fair play to the Sovereign, we should not refrain from throwing off the Indian coins as sanctioned by Act XVII.

In short, I believe, that if we would have a legal Gold Currency hereafter, we should supply the country with gold coins at present. In any case this must be a matter of time, but I think it is incontrovertibly shown that we shall never extricate the currency from the dilemma in which it is placed, a dilemma totally opposed to the wishes of all the commercial classes in India, until we afford the means of a Gold Currency by adding to the Indian coins now in circulation. The legal tender must then follow.

There should be no attempt at regulating the value of gold by further notifications, unless Government be prepared to concede the legal tender. We shall be in a position to do this so soon as we are satisfied whether or not the statements given by Act XVII do fairly represent the relative values. Till the mistake of 1864 was repaired, it was quite impossible to make an experiment or even hazard a guess in these matters.

What I object to in Mr. Strachey's views is this, that because we are in uncertainty now, therefore we are to take no practical step towards our extrication from it. This would be, in fact, to abandon the results of all the labour and investigation of the last five years, and, finally to deny a legal Gold Currency to the commerce and industry of India for which they have so long entreated in vain.

I concur in my hon'ble colleague's warning against the artificial enhancement of silver. I would venture to say, that there has been no more zealous supporter than myself of the argument that it is absolutely necessary to proceed according to actual facts of value without any artificial arrangement such as that suggested by Sir Charles Trevelyan in 1864, again and lately by those who have advocated the compulsory tender of the Sovereign at Rs. 10, whereby the value of silver would be unnaturally raised.

It is in such a sense, *viz.*, consulting only the facts of value, that I wrote in 1864, and, at the instance of Sir John Lawrence, again tendered my advice during the last year. With regard to those facts it would be well to consult the evidence given to the Currency Commission, as well as the tables of prices which are prepared at the ports of embarkation, where the Sovereign has a value *per se* because of its quality of money in England.

But can the same be said of Mr. Strachey's practical recommendation? Thus (*vide* his 23rd paragraph), he actually wishes to depreciate the value of silver artificially in this country, and to make a legal tender of gold which shall thus stereotype the arbitrary depreciation. Be it further observed that he fixes on a price of silver for this purpose 5s. 1d. in India, which is frequently,

it may be said in prosperous times, generally below the rates of the London market itself.

In support of this assertion I add in a note * the table of the prices of bar silver in London, which was furnished to me authoritatively in 1864, and is in the Appendix of my Minute of that year, from which Mr. Strachey has quoted. This table gives the prices of silver during the eleven previous years, viz., from 1853 to 1863, inclusive. It will be observed that in no single year was the average price of silver below 5-1½, whereas the average price for the eleven years was about 5-1½. Now this was in London and not in India, and in India silver has to bear the cost of freight, insurance, and brokerage when imported from Europe, which are computed at 3¼ per cent.

I cannot discover in Mr. Strachey's Minute that he has taken into consideration the 3¼ per cent. which must be added in India on the foregoing accounts to the price of bar silver as stated in London. The like omission, unless I have read the paper wrongly, appears in the table he cites in his 14th paragraph. Thus, in that table it is said that when bar silver is at 5s. 1d., the equivalent in the rupee is 22·67d. = 10·9·3 in the pound.

In Mr. Dunlop's table (Appendix V) which in the calculation includes 3¼ per cent. for freight, insurance, and brokerage, and further the Mint charge, it is shown that when the bar silver costs 5s. 1d. in London, the cost of the rupee in Calcutta Mint is 23⁹/₁₀, which would give Rs. 10 and ⅔ of an anna to the pound.

I am, I think, bound to follow the argument to its legitimate conclusion. Thus Mr. Strachey has told us, see paragraph 13 of his Minute, that since July 1866, the price of silver has never gone above 5s. 1d. in London, and that during the whole of last year it did not exceed 5s. 0½d.

Taking the price of silver in London as the basis of calculation, we have seen what the cost of the rupee is in the Calcutta Mint when the silver costs 5s. 1d. in London. The same commercial method of computation being adopted, viz., of adding the cost of freight, insurance, brokerage, and Mint seignorage to the London price, we are informed by Mr. Dunlop's table, that

* The price of bar silver per ounce standard in London.

YEARS.	January.		February.		March.		April.		May.		June.		July.		August.		September.		October.		November.		December.		Average.			
	s.	d.	s.	d.	s.	d.	s.	d.	s.	d.	s.	d.	s.	d.	s.	d.	s.	d.	s.	d.	s.	d.	s.	d.	s.	d.		
1853	5	1½	5	1½	5	1½	5	1½	5	1	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½
1854	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½
1855	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½
1856	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½
1857	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½
1858	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½
1859	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½
1860	5	2	5	2	5	2	5	2	5	2	5	2	5	2	5	2	5	2	5	2	5	2	5	2	5	2	5	2
1861	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½
1862	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½
1863	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½	5	1½

the cost of bar silver being in London 5s. 0½d. per oz., the cost of the rupee at the Calcutta Mint becomes $23\frac{7}{10}d.$, which, if reduced to value in the sovereign, gives about 10 rupees 2 annas or 2 annas below the rate stated in the Government notification, and 2 annas 4 pies below the value of gold assigned in Act XVII.

We have then the further inference that the price of bar silver, as quoted in London, if taken alone, is a fallacious guide, and that in truth it leads to a conclusion opposite to that desired by Mr. Strachey.

Consequently, it is difficult to deny that if we would approximate to the value of gold in India in the statement of price, we must follow the rule of the gold merchants, which looks to the cost of the delivery of gold in India, rather than pay exclusive attention to the price of silver in a very distant market. And we are again reminded of the absolute necessity of remembering that behind both modes of computation lie the confusing elements of the balance of trade and the state of the exchanges, which seem to have escaped Mr. Strachey's consideration.

It cannot in any manner concur in the suggestion which would reverse the usual order of things, and make the more valuable metal a legal tender for small amounts only; in short to have a gold token coinage. This, I believe, to be absolutely contrary to correct principle and all previous usage in any country, and therefore to be certain to add one more complication to the difficulties already artificially caused in an otherwise easy matter. There can be no reason for limiting either gold or silver as regards tender, until the time has arrived for reducing the inferior metal to a token coinage, and a single gold standard has been thus established.

As I have often ventured to urge, all that we have to do is to adjust, as closely as possible, the relative values of the two metals in coinage, and then leave them to fight the battle for supremacy.

Wherever this has been done, silver has been driven from the field, notwithstanding that silver was the original standard; *e.g.*, the United States, France, etc., etc.

For the argument on this point, and the manner in which the obligations of a country which once had a silver standard, continue to be stated under the old denomination, after the silver coinage and standard have made way for gold, I beg to refer to my Minute of March 1864.

I would add that I entirely concur in Mr. Strachey's remarks on the proposals of the Indian Mint Masters.

XXI.

MINUTE BY THE HON'BLE SIR RICHARD TEMPLE, DATED 12TH FEBRUARY 1869.

His Excellency Sir W. Mansfield has in his Minute of the 9th current, in my opinion, so completely answered Mr. J. Strachey's Minute of the 30th ultimo that my remarks on the present occasion may be brief.

2. My hon'ble colleague, Mr. Strachey, is quite correct in the belief expressed in his 8th paragraph, that my recent proposals regarding a Gold Currency have been based on the Report of the Commission of 1866. Considering the high authority of that Commission, and the elaborate enquiry they made, it was but natural and proper that I should so base my proposals. Considering also that the distinguished President of that Commission, His Excellency Sir William Mansfield, is a member of this Government, it was fitting that I should consult him, which indeed I have done with much advantage and instruction to myself. Indeed, our deliberations on this important subject have been most essentially aided by His Excellency.

3. I append a copy of my Minute of the 5th June last, to which Mr. Strachey has referred; also extracts from Minutes which I recorded in October last.

4. For further exposition of the reasons for the course which has been adopted, and which I, for one, have steadfastly recommended, I would refer to our recent despatch to Secretary of State of the 23rd December 1868.

5. Mr. Strachey points to the relative value of gold and silver as prevailing in Europe. I admit of course that these data are valuable and worthy of consideration. Indeed, I pointed to this very matter in my Minute of the 5th June last. But various circumstances, exchanges and the like, are shown to cause fluctuations, and to render the argument only partially applicable to India.

6. I observe that my hon'ble colleague pushes his conclusion very materially further than Mr. Arbuthnot has done in the valuable paper from which Mr. Strachey quotes. Mr. Arbuthnot does not affirm more than that the substitution of gold for silver in the currency of India would lead to a "re-action in the upward tendency," which has, of late, prevailed in the price of silver as compared with gold. Mr. Strachey considers that if we introduce a gold currency into India, the relative prices of gold and silver in the Indian markets will become approximately the same as the prices that obtain in Europe. It appears to me that my hon'ble colleague has not only, as has been pointed out by His Excellency Sir W. Mansfield, omitted to consider the charges which must always be added to the European price of silver as an element of the Indian price, but forgotten that the disproportionate demand for silver throughout the East as compared with Europe depends, after all, very largely upon circumstances altogether apart from its employment in the Indian currency, such as the habit of hoarding silver, its constantly increasing use for ornaments, and the demand for it in populous regions such as China and Japan. Upon all these circumstances its displacement by gold in our currency will produce little or no effect.

7. But the main, indeed the conclusive, point is the existing relative value of gold and silver in India. If that can be arrived at, or approached, then

we may hope for a solution of our doubts. Now all the evidence goes to prove that a Sovereign can be laid down in India at rates varying from Rs. 10-5-0 to Rs. 10-3-0. This justifies the rate of Rs. 10-4-0 which we are allowing for the Sovereign.

8. That a rating so arrived at by experience should coincide with the legal valuation fixed in India, so far back as 1835, and since unaltered, is a remarkable confirmation of our proceedings.

9. The valuation of 1835, having been arrived at under the previous circumstances of a legal tender of gold, was, it may be assumed fixed after the most careful consideration. It may have been temporarily disturbed perhaps, by the subsequent gold discoveries, but after that fluctuation, has again become practically correct for India at least, the country for which it was intended.

10. I have always understood that the relative value of gold and silver does not really change, in the long run, and upon periods of duration sufficient for the establishment of conclusions, though, doubtless, it is subject to fluctuations intermediately. I would refer to the words of Mr. Dickson (whose authority is beyond question), to the effect that "the relative values of the two metals, notwithstanding periodical fluctuations, do very soon adjust themselves to each other;" and that "the subject must be discussed, not in relation to the existing state of matters, but to the experience of a series of years."

11. Accordingly I went into the latter point last year: Mr. Dickson's examination went back for more than a hundred years, and it appeared that in the year 1717 gold to silver was as 1 to 15-209, and in 1867 as 1 to 15-333, so that the difference over this long period was very slight.

12. If I admitted Mr. Strachey's arguments to the full (which, however, I am far from doing), I should reply that the conclusion logically deducible from them was that we ought to have offered more than Rs. 10-4-0 for the Sovereign; but that, considering that we had raised the rate from Rs. 10 to Rs. 10-4-0, we were manifestly proceeding cautiously, and that our error, if any, was on the side of caution. That such caution is a necessity is shown by the questions put to us from various quarters.

13. As to Act XVII of 1835 being "obsolete," as described by Mr. Strachey, I cannot understand that, inasmuch as gold has always been, and still is, coined under this law.

14. Mr. Strachey recommends that gold should be coined and made legal tender up to Rs. 200 only; silver of course remaining legal tender up to an unlimited amount. This is so opposed to my understanding of the whole subject, that I cannot follow it. The notion seems to be contrary to the fundamental principles of metallic currency; and specially to the practice in England. I understand the natural order of things to be that the superior metal (gold) should be legal tender to any amount and the inferior metal (silver) to only a limited amount when the latter has been reduced to the rank of a token coinage. This order seems to be reversed by Mr. Strachey's recommendation.

XXII.

MEMORANDUM BY THE HONOURABLE SIR RICHARD TEMPLE, K.C.S.I., DATED
19TH JUNE 1872.

I desire to lay before the Government of India three notes by Mr. G. Dickson, Secretary to Bank of Bengal, on the subject of the gold currency, which he was good enough to draw up at my request; also notes by Mr. R. B. Chapman, the Financial Secretary, and Mr. H. D. Sandeman, Officiating Comptroller General, and Mr. E. Gay, Deputy Comptroller General, on the same subject.

2. I have long believed that a gold currency is wanted in India; that its introduction ought to be an object for gradual, if not immediate, attainment; and that the British Government ought to adopt measures from time to time towards that end. I do not say the introduction of a gold coinage, for we have that already in India. We have gold pieces representing fifteen, ten, and five rupees, respectively, and believed, by what may perhaps be considered some of the best authorities in India, to represent these several sums very correctly, as regards the relative value of gold and silver. That this relative value has, by these gold pieces, been preserved with as much accuracy as possible under the circumstances, was affirmed by the report of the Indian Currency Commissioners in 1867. But, despite their intrinsic merits, these coins are not and cannot be available as currency, because they are not legal tender. I conceive that we should, so far as we fairly can, permit inducements to arise for the importation of gold into India, and for its retention in considerable quantities in the country; that whenever such quantity might be found adequate, we should take the first opportunity to declare the gold coins legal tender to unlimited amount; that the gold pieces should continue to bear the fixed relation to the rupee; that, for a time, it might be necessary to permit the rupee to remain legal tender to an unlimited amount which would involve temporarily the difficulty of double standard; that the transition period of double standard should be as short as possible, silver being reduced to a token coinage, and being legal tender up to a small amount only; and that gold should be ultimately the one legal standard.

3. Remembering that many steps must be taken before any such consummation could be arrived at, I should have preferred, just now, to confine myself to such practical measures as could be adopted at present. But, among the many doubts which surround the subject, I see, or imagine that I see, one doubt which affects the very root of the matter. It seems to be doubted whether a gold currency is needed at all for India, or whether it constitutes a requirement of that pressing or important character which would justify any alteration in so delicate an affair as the currency.

4. I do not at all share such doubt; on the contrary, I share the conviction expressed by my predecessors, Mr. S. Laing and Sir C. Trevelyan and Mr. Massey, to the effect that a gold currency is among the urgent wants of India. With the exception of Mr. Wilson, every Financial Member of the Government of India has advocated this view. In 1866, similar views were advocated by a Special Commission in India appointed to examine the whole subject, and have been maintained, at one time or other by every Chamber of Commerce in India. But, in the event of such

doubts as above described being seriously entertained, I will attempt to briefly recapitulate the reasons why a gold currency is desirable in India. And my excuse for making the attempt must be this: If people shall strongly entertain an *à priori* conviction that a gold currency is really wanted, then they will find that the supposed difficulties in the way of its introduction are not at all insuperable; if, on the other hand, they have no such conviction, then the difficulties which more or less beset every question of currency become magnified to undue proportions.

5. It can hardly be necessary to recall to mind the superiority of gold over silver, or the reasons why, in all countries, the estimation of gold is about fifteen times greater than that of silver. A well known writer on bullion has summarized the advantages of gold thus:—

“Gold is the noblest of all metals—the *king of the metals*, as the alchemists of old used to call it. It holds this exalted rank by virtue of its precious physical and chemical properties, among which may be mentioned, more especially, its indestructibility; its signal power of resisting oxidising influences; its fusibility; its permanent ductility and malleability; its beautiful colour and splendid lustre.” *Seyd*—“Bullion and Foreign Exchanges.”

6. It is this superior estimation which, causing gold to be so much more relatively portable than any other precious metal, gives it a practical efficiency in commercial transactions, of which inherent quality nothing save artificial restraints, from systems of currency, can deprive it.

7. The most advanced nations, England, France, Italy, America, Germany, Holland, possess a gold currency. Most of them have at various times adopted measures to change the currency from silver to gold. Some of them have even put forth efforts and undergone sacrifices for this object.

8. It is generally acknowledged by the best authorities, that the money which is to be the medium of exchange and the measure of value in large transactions, or in all save small transactions, should be gold as being the metal most suited for such purposes from its greatly superior estimation. Silver is suited only for transactions too small for the use of gold, just as copper is suited only for transactions too small for the use of silver.

9. In the first place Adam Smith explains that—

“In the progress of industry, commercial nations have found it convenient to coin several different metals into money; gold for large payments, silver for purchases of moderate value, and copper or some other course metal for those of still smaller consideration.”

10. Michel Chevalier gives a similar explanation:—

“We know that, for many centuries, copper constituted the money of Rome. Afterwards, society having become richer, copper money was no longer sufficient; with the increase of wealth, payments became too cumbersome, and a more valuable metal than copper was found better adapted for the bulk of transactions; it was thus that silver money came into use. This was soon after followed at Rome, and for the same reason, by a gold currency. The history of the currency in the monarchies which were reared upon the ruins of the Roman Empire reveals the same process.”

The same authority goes on to say of gold and silver—

“a division of their employment seems to be indicated, for silver the smaller, for gold the larger payments.”

11. M'Culloch, speaking of gold and silver, says that—

“the former would be sure to be preferred as money to the latter in all but petty transactions.”

“The use of gold as money is accompanied by so many advantages that it would maintain its place even though it were somewhat underrated as compared with silver. Inasmuch, however, as gold has so many natural grounds of preference on its side, the true plan is to make it the only standard.”

12. Tooke, after rejecting *seriatim* the arguments for a change from a gold to a silver standard, says that—

“in other respects it would be the substitution of the less convenient for the most convenient description of currency.”

13. Chambers writes in his chapter on money—

“a substance has been employed as the chief circulating medium over the civilized world. Its own nature has made it the standard currency, though it is relieved and aided by other kinds of currency. This substance is gold, which by common consent people at the utmost extremities of the civilized world have used as their standard currency.”

14. One of the main reasons for the preference of gold over silver is forcibly expressed by another writer (Dunning Macleod).

“The greater the intrinsic value of the metal, the better is it qualified to perform the functions of a country.” . . . “The more rare and valuable the metal, the more portable and convenient would it be, so that a man might carry about with him, as it were, a concentrated essence of power of commanding services.”

As John Stuart Mill observes :—

“There is an obvious convenience in making use of the more costly metal for larger payments and the cheaper one for smaller ; and the only question relates to the mode in which this can best be done.”

15. Mr. N. A. Nicholson in his work on the Science of Exchanges says—

“In a country where bank notes for very small amounts are permitted, as, for instance, the dollar notes of America, it matters little which of the two precious metals is chosen as the standard, provided there be one standard. In a country where these small notes are not permitted gold is to be preferred to silver as the one standard.”

Further on he reiterates the opinion thus :—

“Gold therefore is to be preferred as the standard of value in countries where small bank notes are not permitted by law.”

These remarks are fully applicable to India.

16. Even some of those authorities, for example, Ricardo and James Wilson, who prefer silver as the sole standard, make important admissions in favour of gold. Ricardo states that—

“In favour of gold it may be said that its greater value under a smaller bulk eminently qualifies it for the standard in an opulent country.”

James Wilson says—

“No one will be inclined to deny that if we had to begin a system of currency *de novo*, the most convenient of all the various systems now in practice would be found to be that used in England, where gold is the standard, and silver tokens of limited tender the subordinate coins.”

17. Now these considerations of political economy are just as applicable to India as to any other civilized country. It will hardly be denied that India is a civilized country. Although civilization, in a politico-economic sense, is not so diffused in India as in Europe ; though the mass of the people are less civilized than the corresponding classes of an European people, still India has a fair proportion of civilization, has a large field for the exercise of political economy, all which, though inconsiderably relative to the vastness of the country, is considerable absolutely. Though on the whole a poor country certainly, still India is, in parts, rich enough, has, within particular limits, great wealth, has extensive transactions, has, in some respects, much to do with money on a great scale.

18. It is no sufficient answer to this to say that the mass of the people never see anything better than copper money ; that it is only certain classes

that see even silver ; and that but a comparatively limited number would see a gold currency if it existed. For the limited number who would see gold represent the most important classes of the country, just those classes whose skill, enterprise, and intelligence, go far to make the fortune of the nation. If the sections of the people who would use gold were summed up, they would be found to represent a great and growing interest. And if they really require a gold currency, that would be a strong reason for introducing it.

19. Again, if it be supposed that such currency were not so urgently wanted for the interior of the country generally, still the question would remain as to whether it is wanted for the larger transactions of the inland trade and especially for the foreign trade? It is not so easy to gauge the inland or inter-portal trade. But we know the extent of the foreign trade exactly, and we can see what a mighty interest that represents.

20. But the number of persons in all India who would use a gold currency is not so limited as seems to be supposed. It may be mentally measured in this way. With our five-rupee gold piece legal tender, every one who had to pay five rupees or more in metallic currency (unless he paid in currency notes) would pay in gold. Every one who kept, or hoarded five rupees and upwards in treasure would use gold. Let us compute by our own notions (we cannot ascertain exactly) what the number must be of payments of five rupees and upwards in all India within any year. Surely it must be very great, quite great enough to justify the consideration of measures for introducing a gold currency.

21. Or let us suppose that, following the example of the five-franc gold, coinage or, forming the easily conceivable notion of a five-shilling gold piece we were to have gold coins of lesser denomination than five rupees (for which the authority of M'Culloch might be cited)—say, for example that we were to have $2\frac{1}{2}$ rupee gold pieces, then every payment of metallic currency of $2\frac{1}{2}$ rupees and upwards would be made in gold, if there were a gold currency. How very great, then, must the number be of such payments in a year.

22. But in these, as in other matters, there is such a thing as national prejudice. It is conceivable that such a population as the Indian might have some national prejudice against gold. But have they, in fact, any such prejudice against gold pieces? No, they have not. Quite the contrary; their prejudice, if they have any, is entirely in favour of gold. The imperial dynasties which preceded us in India had a gold currency. Some comparatively ancient gold coins have still a limited circulation, and enjoy the highest repute. It is remarkable that the gold coins which issue from the British mints in India mostly find their way to Native States. It may be said, in general terms, that, on our accession to power in India, we found a gold currency existing conjointly with the silver currency; and it was reserved for us to accord silver the dominant and exclusive position which it now holds in the currency. My own belief is, that few nations have, in their own minds, a higher appreciation of gold than the natives of India.

23. It was in 1835 that silver was made the sole legal tender in India; gold, however, ceasing to be a legal tender, was still receivable at the treasuries in payment of Government dacs. Even this was stopped in 1853. The prohibition was withdrawn in 1869, since which time the gold pieces have been and are receivable at the treasury as before.

24. This measure, however sound in principle, has not proved efficacious. Indeed the state of the exchanges prevailing since that time has not been

such as to cause the importation of gold bullion. And, indeed, nothing can bring about a permanent influx of gold, while gold pieces are not legal tender.

25. Upon this point M'Culloch writes thus :—

“Silver has become in India, in fact as well as in law, the sole legal tender * * *

* There are, at the same time, various circumstances which make it much to be regretted that an attempt should have been made to exclude gold from the currency of India. * * * Had gold been allowed to circulate as coin, it would have been extensively employed in making large payments, and it would also have been extensively hoarded. * * * It would be good policy to re-introduce a gold currency.”

26. M'Culloch further makes a remark which I shall cite in this place. After explaining that gold would, if it had a fair chance, circulate in India as well as silver he goes on to say—

“In that case the increased demand for gold * * * would, by lessening the demand for silver, have checked any tendency it may have had to rise.”

Sir William Mansfield (now Lord Sandhurst) elaborated this same point in 1864. He estimated that the exclusion of gold from the currency caused a rise of 5 per cent. in the price of silver, and held that this led to injustice towards the land-holding classes of India who pay land revenue fixed for long periods or in perpetuity.

27. Whether we go to the full length of these conclusions or not, still we can hardly doubt that to virtually oblige the people of India (as we indeed do oblige them by our present system) to use only one precious metal for currency, when they might have had two precious metals, is to enhance the price of that one precious metal, silver, and thereby to put them to considerable expense unnecessarily. They must have the silver for currency use, and they must purchase it with their produce. If the price be enhanced, say, by even a small percentage, then let the significance of that be considered. The amount of silver in circulation cannot of course be stated, but it must evidently be very great—supposed to be at least 150 millions sterling in value, sometimes even estimated at more than 200 millions. Tooke's History of Prices, Vol. VI, page 723, gives the amount at 400 millions. But that includes silver for ornaments and other purposes. It is not material to the present argument to discuss what the estimate ought to be. The amount, whatever it may be, has been purchased by the people of India. Then even a small percentage on either sum would give an extra expense of several millions, to which the people have been unnecessarily put. Such an estimate is not precise indeed, but it may serve to give some idea of the possible loss occasioned to India.

28. Again, to use gold instead of silver coins is to effect a great saving in minting charges and in wear and tear, or, *per contra*, to oblige the people to use silver coins when they might use gold is to put them to the expense of about fifteen times as much minting and wear and tear of coinage as might otherwise have been necessary. This cost may be relatively small, from one to two per cent. on value of coins; still let us remember the amount of silver coined in India since 1835, about 197 millions, and we shall see that even a small percentage on this vast sum would be an appreciable amount. It follows that this amount might have been to a large extent saved to the country had there been a gold currency. Sir W. Mansfield summarizes the advantages of gold as—

- “1st, superior portability,”
- “2nd, decrease of wastage,”
- “3rd, economy in mintage,”

and he describes these as "elements of cheapness which have a marked effect in asserting the superiority of gold."

29. It is often said, in effect, that the certainty of silver always being largely employed as currency in a comparatively poor country like India is a reason why a gold currency is not wanted. But I contend, on the contrary, that this very circumstance is one of the reasons why a gold currency is wanted, because it tends to steady the price of that silver which is one of the necessities of the national life.

30. On the whole, it seems clear that, while, in all other branches and departments of administration, we endeavour to give to India the best of everything so far as we can, yet, in respect to metallic currency, we deliberately withhold from her the first-rate article and afford her a second-rate one.

31. The foregoing considerations apply to India in common with other countries where there may be commerce and accumulated wealth. But there are special reasons in India why a silver currency without any gold currency must be inconvenient. In other words there are, in addition to the general reasons, special reasons why India ought to have a gold currency.

32. The Continent of Europe, and especially the United Kingdom, obtain both gold and silver from about the same distance in the case of each metal. Those countries have commercial relations with gold and silver-producing regions. Gold comes direct from America, so does silver.

33. With India the case is different. She has but slight commercial relations with America, and, consequently, she has to obtain silver through the medium of England. This is, to some extent, a disadvantage, and must involve various charges, direct and indirect. She has also to obtain the silver, in which her currency solely consists, from an immense distance.

34. On the other hand, she could obtain gold from Australia direct without employing any other country as a medium, and from a much shorter distance. Thus it would appear that, from its situation, Australia, with its gold-producing regions, is the natural source of supply of the precious metal to India. It is the present system of the metallic currency that prevents India from availing herself of the great natural advantage offered by Australia in this respect, and forces her to obtain her specie under comparatively disadvantageous circumstances.

35. As Colonel Smith, the Mint Master, has well expressed it—

"The advantages of introducing gold into the currency of our vast dependency need not be here insisted upon. They may be inferred from the unanimous wish of the inhabitants for a less cumbrous means of exchange, from the benefit to be derived by the whole civilized world from India's taking her share of the increased produce of the gold mines, and from the anomalous spectacle exhibited for many years past, of ships freighted with gold traversing half the globe in one direction, crossing ships conveying an equal value of silver in the opposite direction, for the adjustment of balances of trade capable of settlement without either voyage, and with a saving of expense of a quarter of a million sterling annually."

36. Sir William Mansfield (now Lord Sandhurst) put the case thus :

"There can be no good reason to compel the precious metals to make the journey from Australia round by London to India, instead of coming direct to the latter country. Yet that is what, to a certain extent, necessarily takes place, and which throws heavy charges on the metal ordained as a legal tender, *viz.*, silver. The gold of Australia must go to London to be exchanged for silver, which is then sent out to India after being bought at an artificially high price in Europe and the United States. The European markets are the middlemen who obtain their profits on the silver sent to India to restore the balance of trade."

37. Sir Charles Trevelyan ably set forth the same point thus :

"England has a Southern as well as an Eastern Empire, and the great staple of that Southern Empire is gold. Owing to the exclusion of gold from the Indian currency, the

trade with Australia is chiefly carried on in this way. The gold of Australia is sent to England, where it is employed in buying silver, and the silver is sent to India burdened with the charges of the double voyage and with the additional interest accrued during the long period occupied by it. The cotton and other exports of India are charged with the extra expense arising from this circuitous mode of payment. Even a worse result is, that the trade cannot be carried on in a regular manner. The gold remains in the Bank of England until the Indian demand sets in, and then it is suddenly withdrawn to sweep the continent of silver for transmission to India."

38. The fact that the trade between India and Australia is not great, and is not likely to grow essentially, would not of course constitute a difficulty. It is true that if India received a large amount of gold from Australia, she would not be able to send her produce to Australia in return. But the balance in favour of Australia would be settled and adjusted in the trade between India and England and England and Australia. India has extensive claims upon England for produce exported thither. She would transfer to Australia a portion of those claims and thus pay for the gold.

39. The adjustments which take place in China will afford an illustration. China owes India, yearly, a large sum for opium. She does not wholly pay this debt by produce or treasure. She pays, in part, by transferring to India her claims upon England for Chinese produce exported thither.

40. But, further, there is one marked peculiarity in the situation of India,—which is perhaps almost unique in the world,—in that she has annually to remit to England money to the sum of many millions. The liability is as serious as it is inevitable, and the cost of so vast a remittance amounts to nearly half a million pounds annually, and sometimes more.

41. While the India currency is in silver only, the principal means of remittance must be silver. Under these circumstances India will never possess gold in adequate quantities. The balance due to her on trade will be paid in silver; in the main, she must take that metal and none other. And she will possess no other precious metal wherewith to pay whatever there is to be paid by her in specie. She will have then, only her silver and her produce wherewith to discharge her obligations.

42. But, as England has a gold currency, the payments must be made in that metal, so far as they have to be made in money at all. And, as India has to pay in gold, she must obtain gold either by means of her silver or her produce. This is the real basis of the transaction, though, in practice, India does not generally make her payments in specie. She receives gold in England from purchasers of bills called council drafts, and pays to the holders of these drafts silver from the Indian treasuries. But the payments are settled and adjusted in gold, and the difference chargeable to her on this adjustment, comes to the same thing as if she had purchased with silver, or produce, the gold wherewith to make payment.

43. This arrangement appears to be inconvenient to India in various ways.

44. In the first place she obtains her silver through England. The cost of effecting this is considerable. Then she has virtually to bear the charge of exchanging silver in her own limits for gold in England, and the cost of that again is considerable. It would be more economical, and more convenient, if she herself possessed the gold in which the payments had to be made. If her currency were to be gold, then she would always possess quantities of the very metal in which her obligations have to be discharged and her account adjusted.

45. If the currency of England had been silver, then the argument would be somewhat altered. At present India has a sort of double difficulty.

Firstly, she has to make this great payment annually, in itself a difficulty. Then she has the additional difficulty of purchasing the metal in which the payment is calculated. This additional burden is caused by the present state of the currency. And this must aggravate the charges to which India is subject.

46. Again, under the existing status, the relative value of silver to gold is the regulator, in all respects, of the cost of these transactions to India. The value of silver is, of course, liable to fluctuations. For, the value of gold in England being determined by law, and that of silver being not so determined, these fluctuations as regards silver are appreciably great, and are sometimes embarrassing by reason of the trouble and expense which they cause. Within India the value of silver is indeed determined by law, but that fact is of no use nor validity in respect to the exchange with England. Now this difficulty would be mitigated, perhaps almost removed, if India had also a gold currency, with the same status as that of England, that is, with the value determined by law.

47. Mr. Goschen, in his work on Foreign Exchanges, writes —

“Considering the case between silver and gold. When a bill on Hamburg payable in silver is bought in London for a certain price, payable in sovereigns, what will determine the value? * * * * Gold is simply merchandize in such countries as have a silver currency, and silver is merchandize in such countries as have a gold standard; and, according to the price of the merchandize at a given moment, so will the exchanges fluctuate. When a bill on Hamburg is to be sold on London, all the previous elements of value will have to be taken into consideration,—the rate of interest in the two countries, the state of credit relative indebtedness, and so forth; but the value of silver in England will enter largely into consideration, or, in the opposite case, the value of Gold in Hamburg.”

Now it seems to me that, *mutato nomine*, the same story might be told of the exchange between England and her Indian dependencies, and that the process inevitably places India at a disadvantage.

48. Thus I contend that there should be one standard only of value for the two countries; in other words, that the standard for India should be the same as that for England; that India is specially entitled to this advantage, because she is more conveniently suited as respects the gold-producing regions than the silver-producing regions, and because gold is the currency of the country to which India has to make such great payments; and that a gold currency would not only cause a saving to India in the procuring of so important an article as specie, but would also lessen the difficulties arising from the pecuniary obligations of India towards England.

49. There is one more point to be noticed, which is this. It is observed by the Financial Secretary, Mr. R. B. Chapman, that when upon the establishment of a gold standard, silver came to be demonetized, and the intrinsic value of the rupee to be diminished, the effect on the native mind would be bad. Mr. Chapman's words are—

“It follows that we shall have to substitute for the use of the masses of our population a token silver currency for the present full value currency. Are we at all certain what the effect of this will be upon the ignorant population? Or how a silver token currency will work alongside of a full value Native State silver currency?”

50. It is quite true that the natives will always look to the intrinsic as well as to the nominal value of the rupee. Though the new rupee, with a less intrinsic value of, say, 6 per cent., may pass in currency for the same value as the old rupee, still the natives will not estimate it so highly as the old rupee, because they use rupees for melting and for hoarding, as well as for currency. All this may be admitted to the full. But what then? I fail to perceive what evil would follow. It is said that the natives would prefer the rupees of Native States in which the proportion of alloy might be less than in

the demonetized British rupee. It might not be of much consequence if this were to be the case. But it by no means follows that any such consequence would rise. If natives closely estimate the grains of fine silver in the rupee, they will weigh accurately the British rupee against the Native rupee. And the British rupee will be valued at its weight in fine silver at least. Besides this, it would have the advantage of being legal tender in British territory for small amounts which the Native rupees would not. And this advantage must secure the preference to the British over the Native rupee, as silver to silver.

51. It might be said of course that the British rupee would cease to possess the estimation it now possesses, and this portion of our currency would decline in reputation. Very true no doubt. But, on the other hand, we should have given the country a gold currency, the coins of which would rise rapidly to the highest repute, and to a degree of estimation to which even our silver has never yet risen. I believe that no coins that ever were coined in this country would be so popular as the gold legal tender coinage of the British Government. In other words, while we deprive the people of the old silver standard, we give them, in return, a superior gold standard. And thus the last state of the currency would be far better than the first.

52. Further, it is sometimes urged, as a reason against introducing a gold currency, that there is never likely to be a sufficient quantity of gold available to justify its being declared legal tender. The quantity of specie required for circulation in India was estimated, fifteen years since, at 150 millions sterling, or rather that was the supposed value of the silver coins in circulation. Within this century, the net importation of gold has exceeded 99 millions; but only a small portion of it has been coined. Having regard to the long period that coin lasts, the coinage, gold and silver, may now be estimated at more than 150 millions sterling, and the amount of gold bullion and specie in India is within this amount. These several quantities may not, indeed, be precisely known. But it is quite true that the amount of gold available or obtainable in India, under present circumstances, is small as compared with silver, and is not, as yet, nearly enough for what the requirements of the country would be after gold being declared legal tender. But, though I admit all this to the full as fact, I do not at all admit it as a reason for refraining to declare gold to be legal tender. For manifestly, gold, having been

SILVER COINAGE.

	£
From 1801 to 1834-35 . . .	63,631,833
„ 1835-36 to 1870-71 . . .	196,776,414
	<u>260,408,247</u>

GOLD COINAGE.

From 1801 to 1834-35 . . .	11,060,148
„ 1835-36 to 1870-71 . . .	2,061,972
	<u>13,122,120</u>

TOTAL GOLD AND SILVER COINAGE.

From 1801 to 1834-35 . . .	74,691,981
„ 1835-36 to 1870-71 . . .	198,838,386
	<u>273,530,367</u>

IMPORTS, GOLD.

From 1801 to 1834-35 . . .	9,455,635
„ 1835-36 to 1870-71 . . .	95,030,569
	<u>104,486,204</u>

EXPORTS, GOLD.

From 1801 to 1834-35 . . .	2,038,442
„ 1835-36 to 1870-71 . . .	3,015,342
	<u>5,048,784</u>

NET IMPORTS . . .	<u>99,437,420</u>
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once declared to be legal tender, would become one of the needs of the national existence. Gold would be an article which the country must purchase; and with its large surplus of exported produce over imported goods, and with an ample balance of trade in its favour, the country would have no difficulty in purchasing gold, which metal it could, as has been seen already, obtain direct from Australia on reasonable, perhaps even on favourable terms. If then the need of gold for currency in India were to be anticipated, its influx into the country would be a matter of a few months, perhaps only of a few weeks, and the want would hardly have begun to be felt before it was supplied.

53. Before concluding, I would add that experience does not shake my belief that the relative value of gold and silver is represented according to scientific theory and principle by the present gold coinage of India, that is, 120 grains gold piece to 10 rupees; that the present rate offered by the Government of India in 1869 for the English and Australian sovereign 10½ rupees (ten rupees and four annas) coincides as nearly as possible with that standard, and that the conclusions arrived at by the Currency Commission in 1867 are sound. It is true that very few sovereigns have been received in the treasuries since 1869, but this circumstance is attributable not to any defect in the rating (10½ rupees to the sovereign) but to the state of the exchanges which has precluded the importation of gold bullion, silver being the sole legal tender. How can gold compete with silver in India while the latter has a value fixed by law and the former has not? I understand that, as a matter of fact, gold can still be laid down in India at something less than Rs. 10½ for the sovereign; and that, so far, the Rs. 10½ rate must yield a profit on the importation. If that be so, then this rate would still seem to be the right one. And the non-arrival of gold must apparently be due to artificial causes, which amount to this, that gold is at a disadvantage as compared to silver, which is favoured by law. If this be so, then the fact that gold sovereigns command in the market, at most times, a higher price than Rs. 10½ and the 120 grains gold piece a higher price than Rs. 10, must be owing to adventitious causes, and to the circumstance that the supply of these coins being very limited, there is a sort of fancy demand for them, which is no criterion of what their value would be under a different status.

54. Those who dissent from the above-named determination of relative value base their argument on the fact that this assumes a proportion of exactly 15 to 1 gold to silver; whereas, at many periods in England, and of late years in India, the market prices show a proportion of something more than 15 to 1. But then the prices are affected in England by the fact that gold has a value determined by law and silver not; while *vice versa* in India silver has a value determined by law and gold has not. And this consideration renders it impossible to determine relative value precisely by these prices. One cardinal test is this: take the cost at which gold and silver can be laid down, is, and generally has been, laid down in India, counting the charges for bullion, freight, insurance, brokerage, and seignorage, and then the proportion of 15 to 1 would appear correct and proper as regards this question at issue; and it would seem that gold could be profitably imported at the present rating.

On the other hand Mr. John Norman of Calcutta, a gentleman of great knowledge and experience, in a letter which will be found among the appendices of this minute, endeavours to show that 15 to 1 would practically exclude gold; that 15½ would exclude silver, and considers that with 15½ or even 15½ very large amounts of gold would be presented for coinage.

55. I still hold to the opinion that if it were determined to have a gold currency, we should mainly employ our Indian gold coins for that purpose. I would not object to make the sovereign a legal tender for ten rupees and four annas. But the sovereign being worth ten rupees and a fraction over, there might be some slight trouble of calculation in changing it for silver, and this would be a drawback in respect of the use of the sovereign as currency in India. And if this objection were urged, I would not press for the sovereign being declared legal tender. But we should continue, under any circumstances, to receive the sovereign in our treasuries at the present rating or at whatever rating might be fixed.

56. I believe that a repugnance is felt by some to the present determination of the question of a gold currency in India, because of the prospect of some universal coin being adopted internationally. But the prospect seems, practically, to be almost disappearing. At all events the report of the English Commission on international coinage, presided over by Lord Halifax, seems to be quite adverse to any change in the value of the English sovereign.

57. I have not dealt with the objection which has been sometimes urged to a gold currency, to the effect that the national debt, and the paper currency, are calculated in rupees. For the objection has been disposed of more than once in the papers relating to gold. The sum seems to me to be this—we promised to pay in rupees and we should pay in gold determined by law to be equivalent to rupees.

58. I have hardly, in this paper, undertaken to treat of all the points connected with this important subject, still less to discuss all the collateral matters which might suggest themselves for discussion. But the subject in all its bearings has been dealt with in the report of the Indian Currency Commission of 1867, in the volume of printed papers relating to gold currency in India, in the file of correspondence relating to the revised notification of 1869-70, and in the additional papers now submitted. I am unwilling to add more than I can help to the mass of writing which already exists.

59. In conclusion I would ask early and favourable consideration to the proposals of Mr. Dickson, which I will give in his own words :

“ I. To authorize the receipt of English and Australian sovereigns into all the Government Treasuries of India, without restriction, and whether tendered in payment of Government dues or in exchange for silver.

“ II. In conformity with the provisions of the Currency Act to authorize the issue of currency notes in exchange for gold bullion tendered at the mint for coinage into Indian gold sovereigns at the rate of 10 rupees for 120 grains of gold of standard fineness, less seignorage.”

I believe that these recommendations are safe and practical. They are the first steps towards a gold currency. If they succeeded, their usefulness would be too plain to require description. If they did not succeed, still no harm would be done. If, in consequence, we were to have any quantity of gold on our hands which could not be conveniently disposed of in India, we could use it for the remittances to England without loss, and perhaps even with profit.

60. But if, after the adoption of such measures, gold bullion should not be imported ; if sovereigns should not be received at the treasuries ; if doubt still existed as to whether the relative value of gold and silver is correctly

determined by our present rating and coinage, then I hope that the matter may not be allowed to drop. If the present rating of $10\frac{1}{4}$ rupees and the present weight of 120 grains are not proper (as hitherto we have affirmed that they are), then what rate and what weight are proper? If the proportion of exactly 15 to 1 be not the proper one, as we have said it is, then what is the proper proportion? Can any one really prove that it ought to be a fraction below, or a fraction above 15 to 1? Nobody supposes that we have offered too much silver for the gold; then, if this offer be not the proper one, is it really too little? Ought we to offer more? These are questions which, as I submit, the Government of India ought to be able to determine. These are questions which have been determined by every civilized nation that has adopted a gold currency. No doubt it is a difficult and important problem, but it cannot be insoluble, and it ought to be solved. If the enquiries which have been made, and the data which are available be not sufficient, then let another Commission be appointed, so that the matter could be brought to an issue one way or the other; and that all the facts and considerations could be brought up to date.

If the Government could now make up its mind that the introduction of a gold currency is among the real needs of the country and ought to be practically taken up, then I recommend immediately the appointment of a commission to investigate once more and, as I should hope, finally the question of the relative valuation of gold and silver.

XXII-A.

FROM GEORGE DICKSON, ESQ., SECY. AND TREASURER, BANK OF BENGAL, TO
THE HON'BLE SIR RICHARD TEMPLE,—DATED 10TH AUGUST 1868.

Again apologizing for the delay which has unavoidably taken place in replying to your favour of 2nd July, I now take up the several points adverted to therein, viz.,—

1. *To get sovereigns into the country in large quantities by raising the rate from Rs. 10 to Rs. 10-4, or even higher.*—As the proposed measure offers a direct advantage to the importer, it is decidedly preferable to the indirect method of attaining the same object by the imposition of additional restrictions on the importation of silver. But as it is contemplated to introduce the measure as a tentative and experimental one only, without declaring sovereigns legal tender, I am of opinion that its success will, in consequence, be slower and more doubtful. So long as sovereigns command, as they do at present, a higher price than that which it is proposed to fix, it is quite certain that they will not find their way into the Government treasuries; but the present state of things is, I think, entirely exceptional, and the market will ere long return to its normal condition. The subject must be discussed, therefore, not in relation to the existing state of matters, but with reference to the experience of a series of years. At the same time I do not think that it would be safe to be guided altogether by the price of gold during the few years ending in 1864, when it was imported in increasing quantities to meet the adverse balance of trade caused by high-priced cotton exports to England.

The latest quotation for sovereigns in this market is Rs. 10-11-6, which gives the value of an ounce of silver laid down in Calcutta at 4s. 11½-8d., but the average price for the first six months of 1868 is Rs. 10-10-2 only, indicating the price of bar silver at 5s. 0½-324d. For 1867, the average price of the sovereign is Rs. 10-7-6, and of gold, 24 carats fine, Rs. 16-7-7. Taking the mean average of the last 3½ years ended in June, the price of the sovereign in Calcutta is Rs. 10-2-3, and of bar gold of 24 carats fine Rs. 16-5-0, indicating the value of an ounce of silver at nearly 5s. 3d.

So long as silver makes a better remittance to India than gold from Australia, the certainty is that India will not receive any considerable quantity of the latter metal.

In his despatch of 20th September 1864, the Secretary of State says:—

“On referring to the prices of silver in the markets of Europe, the intrinsic value of the sovereign in rupees would seem to be about Rs. 10-8-0, and about Rs. 10-12-0 at the price which prevailed some time before 1850.”

His Excellency Sir William Mansfield, in his Minute of 8th March 1864, writes:—

“Thus the British Indian gold mohur being, by Act of 1835, held to be equal to Rs. 15 gives a value of 5s. 2¼d. to the ounce of silver *plus* 0½d., which may be considered the difference of Mint charge between gold and silver. That being so, if the value of the sovereign be calculated on a similar basis, its worth must be taken at Rs. 10-4-4, its intrinsic value at Rs. 10-6-1, the difference between the two sums being that which would represent the Mint charges if the sovereign were coined in India instead of being imported.”

Taking, then, these several estimated values, we arrive at the mean average relative value of Rs. 10-4-1.

I would, however, desire to guard myself, by stating that so long as gold is not legal tender in India, it must of necessity be subject to the

same fluctuations in value as all ordinary mercantile commodities are; under the universal law of supply and demand.

Is it reasonable, then, to assume that it will pay the importer to part with his gold at the proposed fixed rating of Rs. 10-4-0?

By withholding the declaration of legal tender, and owing to a not improbable apprehension that, on the slightest fall in the value of the metal, Government may be induced to rescind the resolution of rating at Rs. 10-4-0 the importation of gold will not be so free and certain, except under very exceptional circumstances similar to those which occurred during high prices of cotton, when gold was imported in place of general merchandise, the demand for which was at that time unequal to maintain the balance of trade.

The action taken by Government in 1852 of prohibiting the receipt of gold mohurs into the treasuries in payment of public dues, has left an unfavourable impression on the public, and they will hardly be disposed to place greater confidence in similar measures now; and so long as the balance of trade between this country and England can be adjusted with more certainty by the bills of the Secretary of State, Government securities, and bills of exchange, the importer will not subject himself to the risk of loss arising out of the possible action of Government.

To this it may be answered that Government will not alter the proposed rating without giving a few months' public notice in the *Gazette*. Such a modification would doubtless tend to mitigate the evils inherent in the proposed measure, and I do not think that Government could run much risk of loss in the event of large importations and payments being made into the public treasuries, should the price of gold fall below the proposed rating of Rs. 10-4-0. Inconvenience to Government can be averted to a great extent, first, by availing of the clause in the Currency Act which admits of the reserve in coin being held in the proportion of one-fourth of gold to three-fourths of silver; and (secondly) by remittances to England in communication with the Secretary of State, should the gold receipts inconveniently increase.

In September 1865, the Government of India transmitted to England £160,000 in sovereigns, which, after deducting freight and insurance, yielded at the rate of *1s. 11½ 06d.* per rupee against *1s. 11¾d.*, the then average selling rate of the Secretary of State on the general Treasury. But in 1866, when the bills of the Secretary of State were unsaleable at *1s. 10d.* on Calcutta, and at *1s. 10½d.* on Bombay, the Government of India remitted in sovereigns and gold bullion Rs. 22,38,730, which, with freight and insurance added, brought the amount nominally to Rs. 22,92,962, the outturn of which yielded £221,634-2-8, equal to an exchange per rupee of *1s. 11-20d.* In like manner, and including freight and insurance, Rs. 51,37,569-15-1 in silver bars were sent to England in the same year, and the outturn was equal to *1s. 10-18d.*

Although I would prefer the sovereign being made legal tender at the proposed rating of Rs. 10-4-0, along with the concurrent circulation of an Indian coin of 120 grains as the equivalent of Rs. 10, I am of opinion that the proposed rating at Rs. 10-4-0, without making the sovereign legal tender, would be a safe measure on the whole, and a great improvement on the existing state of matters

11. *To obtain permission from the Secretary of State to coin 10 rupee gold pieces at or above the standard of 1835.*—I have gone over the *Gazette* containing the several notifications connected with the coinage of gold, and I cannot discover that the Act XVII of 1835 (see *Gazette* of 19th August 1835, page 692) which permits the coinage of (1) a gold mohur of Rs. 15,

weight 180 grains troy, 11-12 parts fine ;(?) a five-rupee piece equal to a third of a mohur ; (3) a ten-rupee piece equal to two-thirds of a mohur ; (4) a thirty-rupee piece or double gold mohur of the same standard—has been repealed.

In 1841, officers in charge of treasuries were authorised to receive gold coins issued in conformity with Act XVII of 1835 until they shall have passed the limits of lightness allowed for wear. But on 22nd December 1852, it was notified that after 1st January 1853 no gold coins shall be received on account of payments due, or to be made to Government at any public treasury within the territories of the East India Company. It therefore appears to me that the sanction of the Secretary of State is not indispensably necessary, unless it is proposed to alter the existing value, which, I submit, it is not expedient to do.

III. When we get the sovereigns from abroad, to send them to the Mint for re-coinage in 10-rupee gold pieces, to get for coinage as above bar gold and various sorts of gold bullion.—The coinage of an Indian gold sovereign, which will be an exact multiple of the rupee, is highly desirable, even should English sovereigns be rated and received as Rs. 10-4. As the value of all commodities, transactions, obligations, and contracts will continue to be expressed in rupees even should gold become the standard, the facility of conversion from one denomination to another is of the first importance, and gold pieces representing the value of Rs. 10 will be readily preferred to the sovereign valued at Rs. 10-4.

IV. When we shall have succeeded in getting sufficient quantities of 10-rupee gold pieces and sovereigns into circulation, to go up to the Secretary of State with a really strong case for legal tender, the 10-rupee gold pieces at par and the sovereign at its 10-4, or whatever rate may be fixed.—In treating of the first question, I have pointed out the probable difficulty of both obtaining an abundant supply of gold, and putting gold coins into circulation to any great extent, so long as uncertain or optional value attaches to that metal under the proposed fluctuating rating. In other respects, I most fully concur in the expediency of the measure proposed for adoption.

V. To see whether the 10-rupee gold piece will not drive out the sovereign and acquire such a position as to be made not only legal tender, but the sole standard, reducing silver to a token status.—It is very probable that the 10-rupee gold piece will be much more popular and more generally used in the daily transactions of business than the sovereign, and the course indicated, of declaring it legal tender, on a certain contingency happening, will, I venture to think, be hailed by the public generally as a great boon.

Having briefly adverted to the several points raised in your letter, I would respectfully submit—

(1) That it is safer for Government to value the sovereign at Rs. 10-4 than at a higher rating since it is not to be declared legal tender at once. Besides, a higher rating than Rs. 10-4 would render necessary a re-adjustment of the Indian gold piece of 120 grains, inasmuch as it would be worth more than Rs. 10.

(2) That the high prices at which sovereigns and bar gold have been selling for some time past are referable not to an actual rise in the value of gold relative to silver, but to an exceptionally low rate of exchange which practically shuts out gold from our market. Sovereigns have been sought eagerly by persons returning to England, or by those who intend to travel on the continent, and who prefer to pay a smart premium on sovereigns to a heavier loss in exchange on bills on London or on circular notes.

So soon as the rate of exchange returns to its normal condition (see accompanying table with rates of exchange since 1838), I think it probable that advantage will be taken of the facilities proposed to be offered to the importer of gold, and that it will find its way in *considerable* quantities under the rating of Rs. 10-4,

Lastly, I am of opinion that the present is a favourable opportunity for fixing the value of the sovereign relative to the rupee at Rs. 10-4, as it could not be said that it would injuriously affect either public or private creditors, and because it would have the effect of checking the depreciation in the value of gold beyond the point assigned by notification, when a reaction does take place.

Generally, the measure proposed is eminently safe as a tentative and experimental one, and if successful, is calculated to lead to the inauguration of a larger and more important change in our currency. Should it on the other hand, contrary to expectation, prove to be a source of inconvenience, through a redundant supply of gold, thereby indicating a considerable fall in its value relative to silver, the probable loss arising on the remittance of the gold to England with a view to meet home disbursements is not likely to be of great moment when measured against the average rate obtained by the Secretary of State for bills on the Indian treasuries.

Along with this you will receive the following enclosures, *viz.*—

I. Table* showing the actual market price of gold bullion and sovereigns in Calcutta, in continuation of former returns between January 1863 and June 1868.

II. Table* of average rates of exchange between Calcutta and London in the several months of each year from January 1838 to 31st December 1866, with rates of interest charged by the Bank of England and the Bank of Bengal.

III. Minutes* of evidence given before the Select Committee appointed to enquire into the cause of the high price of bullion, 20th March 1810, by the King's Assay Master of the Mint and by Dr. Kelly, setting forth the relative value between gold and silver in England and foreign countries, according to actual assays.

If in any way I can be of further service, you will find me ready at any time to do all I can. Meantime, believe me, etc.

XXII-B.

MINUTE BY GEORGE DICKSON, ESQ., SECRETARY AND TREASURER, BANK OF BENGAL, ON A GOLD CURRENCY FOR INDIA, —DATED 15TH JANUARY 1872.

The question submitted for consideration is whether it is expedient or inexpedient for the Finance Minister of the Government of India to move further in the attempt of having a gold currency in this Empire.

Since the subject was considered by the Committee in India presided over by Lord Sandhurst, it has undergone considerable discussion both here and in England.

The result, so far as I have read and ascertained, goes to deepen the conviction I have been privileged to express to you in former minutes, that the conclusions arrived at by the Committee which sat in India are eminently sound and unassailable.

Such being the convictions I hold, I reply to your enquiry (1) by saying that, in my judgment, the present is a favourable and opportune time for taking another forward step towards the accomplishment of what every one apparently so much desires.

The chief difficulty is of course the inadequate supply of gold at present in the Indian markets, former supplies having either been absorbed for other purposes than those of currency, or exported to foreign countries. It may be received as a sound axiom that no Government could seriously entertain the idea of changing its standard, or introducing an alternative measure of value, without a *sufficient* supply of the precious metals to fairly initiate the object in view.

This being so, the question naturally arises—"when is India likely to have such a supply of gold at command as may enable the Government of India to change the standard of value, so as to cause the least disturbance in her internal and foreign relations?"

As India is neither a gold nor a silver producing country, the same causes which have operated in securing for her a continuous supply of silver will, in like manner, continue to draw gold to her markets, provided it finds a ready sale at a determined minimum value,—a point more fully adverted to hereinafter. As a rule, India has a large balance of trade in her favour, arising out of her commercial relations with other countries. Although the adjustment of this balance is, in part, effected by the Secretary of State's drawings on the Indian treasuries for home disbursements, and by divers causes more fully adverted to in other minutes, yet, in the long run, a considerable sum must be discharged either in gold or in silver. Further, the business operations of the Exchange Banks, at a time when exchange rules high, will have a very material effect in adding to our supplies of gold. Silver being legal tender in India at a value below which it cannot fall, the bulk of remittances in payment of her surplus claims is, for the most part, made in that metal. It is clear, therefore, that the causes which influence the movement of specie from one country to another affect gold and silver alike. Without an act of Government declaring gold legal tender, it follows that some inducement must be held out to importers to insure them against loss resulting from a sudden fall in the price of gold in the markets of India. For, besides drawing her supplies from England, India may safely look to another source for a fuller supply. To balance her trade with Australia, England has a large amount to

be paid to her in gold, and this gold, instead of being sent direct to England, can often be more cheaply and profitably laid down in India for the purchase of claims on England. During several years past owing to a very limited import, and to a continuous adverse state of exchange, Australian and English sovereigns have commended a much higher value than that assigned to them under the Government Notification, *viz.*, ₹10-4.

But, in the present upward tendency of exchange, owing to the unceasing development of the export trade, it is safe to assume that a very considerable influx of gold coin and bullion may again be looked for, and, if so, prices will fall to the level of the Government rating.

There is, however, ground for believing that the too restrictive nature of the notification, authorizing the receipt of gold into the treasuries "only in payment of Government dues, and until further notice given at the option of Government," tends unduly to check that free importation of gold which might reasonably be calculated on under the influence of a high rate of exchange.

During the continuance of the Franco-Prussian war, when heavy amounts of foreign capital were locked up in London, and the Bank's rate fell to 2 per cent., exchange ruled unusually low, as India knows too well to her cost, and though it may not soon again fall to that extreme low point, there is not much reason to suppose that it will touch the extreme high point it reached some years ago.

Having regard, further, to the important changes which the money markets in India have undergone, by the nearer assimilation of the value of money in India and England than formerly characterised the respective markets, and keeping in view the fact that gold has found a new channel of outlet through the change of currency from silver to gold by the German Empire, it is for the Government of India to consider whether some decided action is not needed to pave the way for the introduction of a gold currency, beyond the eminently safe and tentative measures already tried without much effect.

Towards that end I respectfully submit that Government may, with safety, adopt the following resolutions, *viz.* :—

I.—To authorize the receipt of English and Australian sovereigns into all the Government Treasuries of India without restriction, and whether tendered in payment of Government dues or in exchange for silver.

II.—In conformity with the provisions of the Currency Act, to authorize the issue of currency notes in exchange for gold bullion, tendered at the Mint for coinage into Indian sovereigns, at the rate of ₹10 for 120 grains of gold of standard fineness, less seignorage.

Both these measures are, I think, competent to, and rest for adoption by, the Government of India alone.

Should these measures be successful, and a sufficient supply of sovereigns and gold be accumulated, with a corresponding reserve of the Indian gold coin, they both, *i.e.*, English and Australian sovereigns and Indian sovereigns, may, after communication with the Secretary of State, be declared legal tender at the respective ratings of ₹10-4 and ₹10. Silver, as the alternative measure of value, must have a concurrent circulation for a time; but its

demonetization would be accomplished by a gradual and sure process (see section 13 of my letter of 30th May 1868). I have no doubt public writers and critics who profess to have a complete knowledge of Indian finance, and the requirements of India generally, will find all manner of fault with such "half and half measures and as being wanting in boldness," and will not fail to denounce them as being purely "imaginary * and unsubstantial."

* Discussions by the Indian Association in London.

I am in your recollection when I recall the proposals made by some authorities in 1868 for meeting the difficulty in the way of introducing into India a gold currency, by raising the intrinsic value of the rupee. I ventured to point out in my minute of 9th May of that year, that such a measure, if adopted, would in effect raise all public salaries, increase the amount of the public debt, and render necessary the alteration of the value of Government currency notes. I revert to the proposal so made because, towards the end of the same year, the Royal Commission appointed to report on an international coinage, point out, in very striking language, the evils likely to result from a proposal made to tamper with the value of the British sovereign, so as to make it identical with the French coin of 25 francs. The proposal roused such a very strong feeling in monetary circles in the city, that ultimately it had to be withdrawn.

I wish to demonstrate, as clearly as possible, that, while the proposals which, with much deference, I submit for your consideration, are progressive, and calculated to effect the object in view, they are, at the same time, perfectly practical and safe, and, so far as Government is concerned, no harm is likely to arise, even should they result in complete failure.

The Secretary of State, as you well know, has to draw annually from the Indian treasuries a very large amount. Last year, if I mistake not, the selling rate of his monthly drawings was so low as to entail a loss of £600,000 on the revenues of India. If, owing to an absence of demand, combined with what I venture to call a very defective and injurious system, exchange should fall to 1s. 10½d. or 1s. 10¼d., he must either continue to offer his bills in the London market or call for a specie remittance from this side, which could be made only in the form of silver coin or bullion. I need not enter into the results of such remittances and the prices realized; but I may state generally that, making every allowance for reduced freight and insurance as compared with previous years, the experience we have had in the past, with one exceptional case, shows that the loss is very nearly 7¼ per cent., or not better than a sale of the Secretary of State's bills at the rate of 1s. 10¼d. per rupee. I think, these facts being admitted, it follows that, under the existing order of things, the Secretary of State has no means of counteracting the downward tendency of exchange to a point so low as even 1s. 10¼d., nor can you materially aid him from this side so long as things remain as at present.

Such, however, could not possibly be the case, were the Indian treasuries under the adoption of the measures proposed (and I may here observe—*take all in, but give out none*) in possession of either English or Australian sovereigns rated at R10-4 per pound sterling, or of bar gold purchased at the rates I have indicated.

I submit, in corroboration of my argument, the following illustration. With the gold in possession, the Government of India could remit to the

Secretary of State on the following conditions, taking the sum of £100 by way of example, *viz.* :

	<i>R</i>	<i>a. p.</i>
Value of 100 sovereigns at R10-4 each	1,025	0 0
Freight and Insurance 10s. and 4s. 7d. per cent., respectively	5	6 8
Add sundry charges, packing, etc.	0	3 4
	1,030	10 0
Equivalent of a Bill on India for £100 at 1s. 11½d. per rupee	1,032	0 0
Difference	1	10 0

In other words, gold could be exported from India and laid down in London at a cost of R3-1 per cent. (taking the rating of foreign sovereigns at R10-4), or at a difference of 4 per cent. in favour of the Government of India, as compared with the selling rate of the Secretary of State's bills, as we have seen it, at 1s. 10½d.

Without entering more fully into this part of the subject, it may safely be taken for granted :—

- I.—That the introduction of a gold currency into India will in every respect, especially as regards portability, be more convenient and advantageous than the existing silver currency.
- II.—That, by the removal of certain existing restrictions, a supply of gold, sufficient to make the attempt to initiate the change, may reasonably be reckoned on in the present state of the money market.
- III.—That the proposed gold coin for India, containing 120 grains of standard fineness, will not only be as near as possible to its intrinsic market value relative to silver, but any supposed injustice to the public creditor and any confusion in the mode of keeping accounts will be avoided. All value, as at present, will be expressed in rupees; all commodities bargained for in rupees; the public accounts kept in rupees, and the currency notes left as they are: only *payments* will be made in the new coin.
- IV.—That, by declaring the English and Australian sovereign as legal tender at R10-4 along within the Indian one of R10, a large amount of ready-made coin will always be available for immediate circulation, at a great saving to India.

With regard to this last point, I may mention that an able writer Mr. F. Hendricks, in an excellent paper on the Indian gold coinage, recently read before the Society of Arts in London, takes a great deal of trouble to prove that the proposed rating is not scientifically accurate, or, as he states it, is "unreal, imaginary, and infected with error."

This point was not lost sight of by our local committee; for although the English and Australian sovereigns have been rated at R10-4 with a view to avoid a more complex decimal proportion, they are in reality intrinsically worth a little more, relatively to the ten-rupee gold coin of India.

The matter was before the Committee in this shape, *viz.*, that if a coin containing 120 grains of gold of standard fineness be worth R10, a coin containing 123·274 of the same fineness ought, by the rule of proportion, to be

worth £10-4-4³⁸³; but, to avoid complex calculations, and because it would be more desirable to leave the functions of the currency to the Indian coin alone, should the small difference in the exact rating of the foreign sovereign ultimately drive it out of the circulation of India, the Committee did not deem it necessary to observe strict scientific rating. I may also add that the very slight undervaluing of the English sovereign will not interfere with its *importation*, as the difference is more than counterbalanced by the seignorage to which gold bullion is subjected under our mint regulations, while the mintage in England is free.

The objections of these gentlemen were directed against the proposed coinage for India, in the hope that India might be induced to fall in with the proposed scheme of an international coinage; for, says Mr. Hendricks—

“Fortunately for the prospects of an international coinage for India it may be considered, in conjunction with the proposal of Mr. Lowe, to reduce the British sovereign to the extent of 0·87843 per cent., in order to make it identical with 25 francs of gold.”

It would be a mere waste of time to enter on such a *mare magnum* as the advantages or disadvantages of an international coinage. No doubt, if all the nations of the globe were in a position to commence life anew, they would be at liberty, and might arrange, to mould their currency in such a fashion as to establish a uniform standard of value.

It will, however, be more profitable to deal with facts as we find them and turn them to the benefit of India if we can. I have already adverted to the fact of Mr. Lowe's proposal having been abandoned; and I shall now point out that the question of an European international coinage, instead of being nearer solution, has been practically removed further away by the recent action of Germany.

As illustrative of the latent danger to India in relying on help from extraneous sources, I quote the points for discussion submitted to the Royal Commission on International Coinage and signed by Lord Halifax.

Suggestions of points for discussion by the Royal Commissioners on International Coinage.

“In order to establish either—

“I.—A common international coinage, or, if that should be impossible,—

“II.—That, at any rate, one or more coins of universally recognized fineness and weight, should be struck in different countries, forming part of the currency of each country, and being a legal tender and common standard measure of value, in such countries.

“It must be determined—

“1. Of what metal such coin should be made.

“2. What proportion of alloy it should contain.

“3. What weight and dimensions should be assigned to any such coin or coins.

“4. What security could be afforded that the actual value of the coin struck in each country should always correspond with their denominational value.

“5. What deficiency in weight should exclude a coin from circulation.

- “ 6. What authority it is necessary to establish in each country for withdrawing light coins from circulation.
- “ 7. Whether any limit should be imposed on the amount of such coins to be struck in each country.
- “ 8. Whether it would be necessary that in each country some one coin should be struck *identic (sic)* in fineness, weight, and dimensions, and, if so, what coin would be the best common coin to adopt for the principal nations of Europe and America, regard being had to the coins already existing in the different countries.
- “ 9. Whether any and what mintage or charge for the manufacture of the coin should be taken.
- “ 10. Whether any and what regulations as to the subsidiary coins in each country are necessary.
- “ If the above questions can be answered satisfactorily, it will remain to consider with reference to this country—
- “ 1. What change would be necessary in our existing coins.
- “ 2. What effect such change would have—
- “ *a.* On the public revenue :
- “ *b.* On existing contracts and engagements, public and private :
- “ *c.* On current commercial transactions :
- “ *d.* On the ordinary operations of trade and interchange of commodities :
- “ *e.* On the general convenience of the public.
- “ 3. In what time a change of the existing standard coin could be effected.
- “ 4. The cost of such change if no mintage is charged.
- “ 5. What provisions should be made as to the existing coins during the change.
- “ Finally, whether the advantage of a common international coin overbalances the inconvenience of the change.”

HALIFAX.

It is enough, for my present purpose, to state that the conclusions of the Royal Commission are dead against the proposal to reduce the value of the pound sterling to 25-francs, on the ground, mainly that it would disturb all existing obligations, and cause many and serious difficulties detailed in their report, and shadowed forth in the note bearing the signature of Lord Halifax.

That the course followed by Germany in having a coin suited to her own wants, usages, and necessities is the safest and most practical course, I will endeavour to prove in as few words as possible. Germany, under a silver standard of value now in process of being changed, has the three following principal coins in circulation, *viz.* :—

The Prussian Thaler	. . . . .	valued @ 2s. 11d. in sterling.
The Gulden	. . . . .	” ” 2s. ”
The Nassau Gulden	. . . . .	” 1s. 8d. ”
The new gold coins proposed, and being struck now, are—		
20-Mark piece (gold)	. . . . .	value 19s. 7d. in sterling
		and equal to 6½ Thalers.
1-Mark piece (silver)	. . . . .	value 11¼d.
		and equal to ¼ Thaler.

It does not strike one, at first sight, why the ratio of the 20-mark piece to the Thaler had not, under the new arrangement, been made less complex ;

but as I am not in possession of the reasons which induced the adoption of this particular proportion, it is probably the best that existing circumstances could admit of, and carried out with the view of changing at an early period the unit of value from Thaler to Mark.

The German Government have thus acted without reference to the relative weight of the sovereign, 25 franc piece, or any other *foreign* coin whatever.

I give the illustration as being the latest, and one that falls under our own observation.

But suppose you were to listen to the theories of those philosophers, who so strongly insist on the adoption of an international scheme as the only one suited to India, I have had the following calculations worked out, and here is the result. Suppose (the 25-francs scheme being abandoned) India were to assimilate her gold coin of 120 grains to the English sovereign of 123·274, which has been valued, as already explained, at $\text{R}10-4$, and suppose we go further and adopt another of the current theories, *viz.*, a decimal system of coinage, the existing rupee of 180 grains would require to be increased in weight to 184·5 grains, so that it may represent the one-tenth part of the sovereign, and, in order to complete the whole process, the copper token, which now denotes one-sixty-fourth part of the rupee, would have to be so altered as to represent one-hundredth of the new rupee. Nothing apparently is more simple than to have in this way both an international coinage and the decimal system; for have we not thereby a gold coin corresponding in every respect to the English sovereign and a silver rupee representing the one-tenth part of the sovereign, and the copper token the one-hundredth part of the rupee?

But, as a matter for practical working (apart from all other objections), let us take the two following examples:

- I.—A maund of gram, under the existing currency, sells at $\text{R}2-2$, how much will the buyer have to pay with the proposed new rupee?
- II.—You have to pay a balance of wages to your servant of $\text{R}7-9-6$, what sum measured in the new rupee is he entitled to?

They may serve as arithmetical puzzles for the amusement of an expert accountant; and, even, in time, probably, the public might find out that, as the value of the rupee has been increased by one-fortieth part, so has its purchasing power increased in proportion: and that, to pay for the gram in the new coin, one must deduct a one-forty-first part of 2 new rupees and a one-forty-first part of 12·5 cents, the latter being equal to the two annas. I write all this with a full knowledge of my second letter of 9th May 1868, wherein I advert to the process of converting the Sicca into the Company's rupee, to which I would respectfully refer you. I would only venture to repeat that, as I stated in my first letter of 9th May 1868, "any alteration in the standard of value, I do not mean from one measure of value to another, *e.g.*, from silver to gold or gold to silver, but a lowering or raising its established value in relation to other commodities, is calculated to throw everything into confusion. I think the experiment would be a dangerous one; and I have a strong feeling about leaving alone the present measure of value, *viz.*, the rupee. There is no necessity for disturbing it, and any attempt to tamper with it would, in my judgment, be very hazardous. On every consideration it appears more desirable to rate the English and Australian sovereigns at $\text{R}10-4$, and to coin new sovereigns or gold pieces for India containing 120 grains, which will be an exact multiple of our present rupee. Thus you will

leave your present measure of value untouched, you will admit the English sovereign of 123·274 *pari passu* with the Indian one of 120 grains, you have, besides, your Mohur of 180 grains, your half sovereign, and your half rupees."

I would not venture to re-call to your mind these sentences, were it not that I know you have a strong desire to give India the benefit of a gold currency, and because I believe that, if successfully carried out, a great question will have been finally settled during your administration of the finances. At any rate, my very humble views as to the real *practical* mode of dealing with such an important question have received a strong confirmation (1) by the rejection, by the first authorities alive, of the proposal for altering the value of the English sovereign, and (2) by the adoption by Germany of a gold coin of her own, unlike that of her neighbours.

One other aspect of this important matter I venture to submit for your consideration. It is an admitted fact that, in the mutual intercourse between two countries, the one having a gold and the other a silver currency, more frequent and wider oscillations in the rate of exchange do occur than between countries where the currency is alike in both. Take the case of England, with a gold currency, having a claim upon India where silver only is current. India must either pay in silver, which has no determined value in England, except as an article of merchandise liable to the fluctuations of the English market, or India must pay her debt in gold, of which she has but a scanty supply, and for which, therefore, she will most likely have to pay a high premium. The same considerations will apply in the reverse case. Either way the rate of exchange will be governed with a due regard to the cost of remittance, and the probable loss on specie shipments. Looking to the present magnitude of England's special claims against India, and the prospective increase thereto by reason of large additional loans being needed for railway extension and irrigation purposes, the interest on which will fall to be added to the already overgrown amount of the Secretary of State's yearly drawings on the Indian treasuries, I have no hesitation in saying that, under the operation of the proposal submitted for adoption, India will, at least, possess a powerful corrective of the rate of exchange ruling in the London market, even should the Secretary of State withhold his sanction to making gold legal tender in India.

I might enlarge on the importance of the question from this point of view to the finances of India, but I will not weary you. It is clear to me that the equilibrium between the revenue and expenditure of India is closely bound up in the rate of exchange between England and India. It is a fallacy to suppose that by raising a loan in England at a fixed rate, say 5 per cent., India pays an annuity on the amount at that rate only and no more. So long as the interest is payable in sterling in London, and the Secretary of State has to sell his bills payable in rupees, which he can seldom do without loss, the rate of interest, so far as the revenues of India are concerned, is much over 5 per cent. If the present system is to be continued during the progress of the works and until they become productive, the revenues must bear not only the loss of interest, but also the loss in exchange, hitherto expressed at 1s. 10d. per rupee in contracts between Railway Companies and the Secretary of State.

In conclusion, I presume to say that it is a sound maxim for the statesman, as well as the man of business, not to embark in any scheme from which a creditable mode of escape does not exist, in the event of a complete or partial failure. Should the Secretary of State, while the experiment is being

made for encouraging the importation of gold into India, decline to sanction its being declared legal tender, then you can request him to hold his hand for a time, send him a remittance in gold which I have shown to be worth 1s 11½d. per rupee at the mint of England.

On the other hand, should your action be successful, and should you thereby obtain a sufficiency of gold to initiate the proposed change, with the full sanction of the Secretary of State, then any danger which may possibly arise from an excessive accumulation of gold in the Currency Department, and the Government Treasuries, will at once be removed.

My remarks on the contemplated issue of a 5-rupee legal tender note I reserve in the meantime.

XXII-C.

SECOND MINUTE ON THE INDIAN GOLD CURRENCY BY GEORGE DICKSON,
ESQ., SECRETARY AND TREASURER, BANK OF BENGAL,—DATED 7TH
FEBRUARY 1872.

Since I wrote the minute of 15th January, the Financial Secretary has been good enough to place in my hands the official minutes of the Council of India, bearing date the 30th January 1869. Mr. Chapman has, at the same time, asked me to consider carefully the objections raised by the Honourable John Strachey as to the soundness of the conclusions arrived at by the majority of the Council.

If I now attempt to do so in a spirit of fairness, I hope it will be clearly understood that I venture to give expression to opinions in aid of those who are much more competent to deal with the subject than I am, solely with a view to the solution of a very difficult and important subject. I must, however, confess that I have been much impressed with the force and ability displayed in Mr. Strachey's paper. Though his reasoning has failed to produce conviction in my mind, that the measures adopted by the majority of the Council were in the least ill-advised, I agree with him, in principle, when he says that it would be extreme infatuation for Government to adopt any measure which deliberately aims at the contraction of that portion of the circulating medium which is most required for the purposes of the commerce of the country. Being fully convinced, however, of the soundness of the views expressed on the other side by His Excellency Lord Sandhurst and yourself, I shall, with much deference, endeavour to prove that fundamental errors underlie the whole of Mr. Strachey's argument. It may, perhaps, be more convenient to state, in this place, that I concur in the opinions expressed by Lord Sandhurst and Mr. Strachey regarding the proposals of the Mint Masters.

Without referring at any great length to the various reasons adduced by Mr. Strachey in support of his objection to the rating of the English and Australian sovereign at R10-4, I take up the main arguments only, to which, in fact, all the others are reducible—

- I.—That the rating will not attract sovereigns to the treasuries, because R10-4 is below the average market price.
- II.—That if, notwithstanding this low rating, sovereigns do come into the treasuries in large amounts, they will not pass into circulation with silver coins, because the relative values of gold and silver, as fixed by the Indian Act of 1835, and to which valuation the Notification of 28th October 1868 closely adheres, differ, in their respective proportions, from the relative values of the same metals which have prevailed in the markets of Europe.

At first sight, the experience of the few years which we have had since Mr. Strachey's minute was penned, would seem to confirm the conclusion at which he has arrived, *viz.*, that the sovereign has a higher value in the Indian market than R10-4; for it is perfectly true that the average market price has been R10-8. But, bearing in mind the fact that gold has no legal currency in this country, I affirm that the market price is no sound or true criterion of

its ultimate value. In discussing this important point, we must go back to first principles. Much of the confusion that envelops the question, and has led many authorities into error, is, I think, clearly traceable to a non-appreciation of the very point raised in Mr. Strachey's paper.

It is singular enough that although Mr. Strachey supports his own conclusions upon the authority of Mr. Arbuthnot, yet the very passage quoted by him from the Minute of the latter, goes, likewise, to prove what I have here advanced. I quote Mr. Arbuthnot:—"Although the ultimate value of gold and silver must, as before observed, be derived from the value of the labour employed in their production, their immediate price is governed by the law of *supply and demand* to an extent, and sometimes for a prolonged period of time exceeding that which applies to other commodities."

I might cite many authorities in support of the general soundness of Mr. Arbuthnot's argument; but I will content myself by quoting the following from Tooke on Prices, page 13, Volume I:—"All that can be said, therefore, in general terms, is that a deficiency of supply is commonly attended in the case of corn more than in that of most other articles with an advance in price *very much beyond* the degree of the deficiency. The process by which the rise beyond the proportion of defect takes place is the struggle of every one to get his share, of which there is not enough or so much as usual for all." Again page 17, "while the fact, indeed, and the reason of the fact, that, as relates to commodities generally, and to corn more especially, a deficiency of *quantity* produces a great relative advance in price, has been repeatedly noticed, and variously illustrated by several writers, the converse of the proposition, *viz.*, that an excess of quantity operates in depressing the prices of commodities, generally, but of corn more especially, in a ratio much beyond the degree of that excess, was little noticed until the report of 1871."

Lastly, as bearing strictly on my argument, I quote (page 204)—"Silver is as readily obtained and sent to this country (England), if *the exchange* answers, as gold. There is always a market for silver in this country for any quantity, and the utmost variation in the market price is very trifling; but for this variation, trifling as it is, the merchant shipping it obtains a corresponding abatement in the price."

The soundness of the principle first adverted to—supply and demand against the market price—being beyond dispute, it is abundantly clear that the present high market price of sovereigns is due to the supply being unequal to the demand during a period of exclusively low rates of exchange. Let, however, the supply be equal to the demand, and the market price of the sovereign will soon fall to its ultimate value. As illustrative of the fact that the rate of exchange is intimately bound up in the question, I recall to your memory the fact that, in 1864, a high rate of exchange brought us an over-supply of gold, and the market price of the sovereign fell to £10; and that a deficient supply in 1870 and 1871, with low exchanges, caused the price of the sovereign to touch £10-12. These fluctuations in the market price, arising from extraneous causes, are, therefore, not a safe guide for determining the ultimate value of gold measured in silver. His Excellency Lord Sandhurst most forcibly shows that, by following the market price, the Government of India made the mistake, in 1864, of issuing a notification which soon became a dead letter.

It may perhaps be asked what are the causes which operate against the supply of gold being equal to the demand, seeing that the high prices recently obtained in the market are apparently remunerative? I would reply that, as

gold has no place in the currency, not being legal tender, any demands which may arise for it are beyond the reach of accurate calculation as to their range ; and the fear of an over-supply and consequent fall in the market price deters importers from operating largely. In short, unless the question can be solved on surer grounds, discussion will, I fear, land us in as great a maze as opposing views on the subject of free will or predestination are apt to do.

I come now to the second and more important point already adverted to and put by Mr. Strachey, thus :—“The real question is, whether the rating of the value of gold and silver, under Act XVII. of 1835, is a proper rating to accept for a new Indian gold coinage which should have a reasonable prospect of remaining current.” I would follow the reasoning of Lord Sandhurst in reply, and, to my mind, it meets most effectually the points raised by Mr. Strachey. If I now attempt to put forward similar views in my own way, and from my own point of view, I may perhaps help to throw additional light on the subject.

When treating of the precious metals as articles of merchandize, it is necessary to bear in mind that their importation is not wholly determined by considerations of profit and loss. The importation of gold or silver is resorted to, chiefly, in discharge of obligations which one country owes to another, when Bills of Exchange are not available for the same purpose, or when the premium demanded on such bills is in excess of the charges on specie shipments. This being so, it follows that the same considerations which would lead the British merchant or banker, who has a debt to remit to India, to prefer specie to Bills of Exchange, would also induce him to give the preference to gold or silver just as the one or the other appears to him to be the cheaper remittance.

Before applying this principle to actual facts, I notice that Mr. Strachey (§ 12), when discussing the relative value of gold and silver under Act XVII of 1835, quotes, with perfect accuracy, the appendix to the Blue Book issued by the Indian Commission of 1867, and he fairly points to the fact that the price of silver in London, in the early part of 1864, was 5s. 2 $\frac{3}{8}$ d., and, a few months before the submission of the report in 1867, it stood at 5s. 2 $\frac{1}{8}$ d. ; he then adds—

“If these had been the prices which have commonly prevailed, the conclusion stated in the passage which I have quoted from the late despatch to the Secretary of State would have been fully justified ; but, unfortunately, these high prices of silver have been altogether exceptional.”

He afterwards goes on to shew that the average price of silver had been only 4s. 11 $\frac{1}{8}$ d. for 25 years, and the average value of gold to silver 1 to 15·604, and, for a further period from 1844 to 1865, the average price of silver was 5s. 0 $\frac{3}{4}$ d., and the value of gold to silver 1 to 15·358, but that since July 1866 to the date of his minute the price had never gone above 5s. 1d. This again is followed by a table of reference furnished by the Financial Department, shewing the relative proportions of gold and silver at various fluctuating rates.

I must here admit that, if any error occurs in the tabular statements of the appendix to the Report of the Indian Committee, the blame chiefly rests with me, as I was at no little trouble to aid in their compilation from Parliamentary and Mint Returns, as well as other available sources, and, among others, from Mr. Tooke and the Bankers' Magazine. It comes, after all, to this, that the best sources of information vary in their results when averages are cast. I have, however, at present the advantage of writing at a date considerably later than when Mr. Strachey wrote, and I quote from the

appendix to the Blue Book of the Royal Commission on International Coinage the annexed table:—

Statement shewing the price of Silver in London in the years 1856 to 1865.

BULLION OFFICE,

BANK OF ENGLAND;

July 1868.

PRICE OF SILVER PER OUNCE STANDARD.

	Lowest.	Highest.
1856	60½	62½
1857	61½	62½
1858	60½	61½
1859	61½	62½
1860	61½	62½
1861	60½	61½
1862	61	62½
1863	61	61½
1864	61	62½
1865	60½	61½
	<hr/> 609½	<hr/> 620½

Average medium price 61½*d.*

I quote it at length to shew the danger of relying on averages as a sole guide; for it clearly appears that, in every year between 1856 and 1865, the price of silver per ounce standard in London exceeded 5*s.* 1½*d.*, and that the average medium price was actually 5*s.* 1½*d.*, giving the relative value of gold and silver as 1 to 15·34. Mr. Strachey unquestionably shews, by taking the quotation in London at 5*s.* 0½*d.*, that the actual relative value of gold and silver in London is 1 to 15·52, while, under the Indian Act, it is only 1 to 15, and that, according to the actual rate in London, £10 are equivalent to 106·76 grains of gold, whereas according to the Act they are equivalent to 110 grains; and finally that, according to the market rate, a sovereign is worth in London the quantity of silver contained in £10-10-1; but according to the Act it is worth £10-4-4. I respectfully submit, however, that the argument being unsound in its inception, the superstructure raised on it crumbles to pieces, as I shall endeavour to shew hereafter.

What I have ventured to adduce against Mr. Strachey's argument, and his calculations based on the prevailing price of silver at the date of his minute, is forcibly confirmed by Lord Sandhurst in pages 92 and 93 of his minute.

Reverting, however, to the subject of the precious metals as articles of merchandize, I would desire to refer to facts occurring under our own eyes.

The present dearness of money has caused a rise in exchange, and specie remittances have consequently become more profitable than bills. The latest quotation for bar silver in London being 5*s.* 1*d.* per ounce, let us see what rate of exchange it gives when coined into rupees in India.

Former estimates give the charge of laying down silver in India at 3½ per cent.; but, as more active competition, and the opening of the Suez Canal, have caused considerable reductions in both freight and insurance, the present rate may safely be taken at 1½ per cent. only (*see afterwards as to cost of sending gold*).

The actual result is as follows:—

	£	s.	d.
Cost of an ounce of silver	0	5	1
Freight, insurance, brokerage, and packing charges	0	0	0 $\frac{1}{2}$
Loss of interest during process of coinage, say, 10 days at 6 per cent.	0	0	0·125
Total cost	0	5	1$\frac{1}{4}$·125

	₹	a.	p.
Outturn of an ounce of standard silver containing 444 grains fine into rupees containing 165 grains fine	2	11	0
Less seignorage at 2 per cent.	0	0	11
Net outturn	2	10	1

In other words, £0-5-1 $\frac{1}{4}$ ·125 being equal to ₹2-10-1, the rate of exchange per rupee is 23 $\frac{1}{2}$ ·10*d.* It follows, therefore, that when the exchange on India is above 23 $\frac{1}{2}$ ·*d.* per rupee, and the price of silver in London is 5*s.* 1*d.* per ounce, a remittance in silver is more profitable than bills. Mr. Strachey's example and illustration of silver at 5*s.* 0 $\frac{3}{4}$ ·*d.* is entitled to equal weight with my own; but, after all, it only comes to what I have said over and over again, that the relative values of the two metals, notwithstanding periodical fluctuations, do very soon adjust themselves to each other.

But, to follow out my argument, let us see the result if, instead of silver, sovereigns were remitted to India, and which the Indian Committee have rated at ₹10-4—

	£	s.	d.
Value of 10 sovereigns	10	0	0
Freight, insurance, and packing charges, say, to be safe, $\frac{1}{2}$ per cent.	0	1	9
<i>N.B.</i> —I so far modify former estimate, because in the case of sovereigns there is a saving of brokerage, as well as of the loss of interest incurred in the case of silver during the process of minting, apart from the saving on shipping and landing charges as compared with the more bulky silver remittance of an equivalent amount.	10	1	8

	₹	a.	p.
Value of 10 sovereigns in rupees at the rate of ₹10-4	102	8	0

showing the rate of exchange to be 23 $\frac{1}{2}$ ·4*d.* per rupee.

Such is the nicety of calculation which guides the importer, that at the moment I write, we find both gold and silver coming into our markets; for, in comparing the rate of exchange on a remittance of silver bought in London at 5*s.* 1*d.* per ounce and coined into rupees in India, with the rate on a remittance of sovereigns valued at ₹10-4 per £ sterling, we find only three-tenths of a farthing in favour of silver—a difference too minute to affect the importation of the ready-coined sovereign.

I trust I have shown sufficient grounds for establishing the fact, that the rating of the sovereign at ₹10-4 is a sound and scientific rating, when the fact is kept in view that the price of silver per ounce standard in the London market, from 1856 to 1865, a period of 10 years, never fell, at the highest point, below 5*s.* 1 $\frac{3}{4}$ ·*d.*, and sometimes touched 5*s.* 2 $\frac{1}{2}$ ·*d.*, 5*s.* 2 $\frac{3}{4}$ ·*d.*, and 5*s.* 2 $\frac{1}{2}$ ·*d.* and that the average medium price during that period was 5*s.* 1 $\frac{1}{2}$ ·*d.*

The rating at R10-4 is, moreover, in strict conformity with the provisions of Act XVII of 1835, which declared the relative values of the gold mohur containing 165 grains of fine gold, and the rupee containing 165 grains of fine silver to be as 15 to 1. Mr. Strachey argues that the English and Australian sovereigns proposed to be issued under the authority of Act XVII of 1835 will not remain in circulation, because the relative values of gold and silver have not been fixed in the proportions commonly obtaining in the West. Mr. Strachey, however, has not given or shown what that proportion is, and I may say that, had he attempted to do so, he would have found it no easy matter, for this reason : In London, where gold has a *fixed value*, and silver a marketable price, the relative value of the former to the latter will be less or more just as the price of silver happens to rise or fall. The various tabulated statements clearly bear out my argument, and I have only to illustrate it by a very short example, thus :—

When the price of an ounce of silver in London is 5*s.* 3*d.*, the relative proportion of an ounce of gold to an ounce of silver is 14·96 to 1 ; but when the price is only 5*s.*, the relative proportion is 15·71 to 1.

The same rule will hold good in all countries where gold has a *legal value* and silver the price of an article of merchandize only. But is the currency of India and the conditions under which she obtains her coined money so analogous to those of England that, as a rule, the relative value of gold and silver in the former should be determined by the relative value of gold and silver in the latter? England, we all know, has a gold currency, and the English public obtains the sovereign free of mintage. India has a silver currency, and the Indian public obtains the rupee at a charge of 2 per cent., and then only after a delay of (say) 7 to 10 days.

I may be permitted to mention here that, as a matter of fact, India obtained more silver of late years from China and elsewhere than from England. I do not, however, mean to enforce this as a reason against the London price alone being followed in determining the relative values of gold and silver. But to resume my argument, I am prepared to admit that an ounce of gold, £3-17-10½, and an ounce of silver bought at, say, the average medium rate of 5*s.* 1½*d.* already quoted, and both laid down in India, ought to bear the same relative values as at the port of embarkation, because the cost of transmission will be nearly the same in either case, though, as already shown, the charges for silver are somewhat higher. But at this point, our divergence begins. For, when one of the two metals is manufactured into coins, or when both are manufactured into coins, they do *not* continue to retain the same relative value. In the former case the value of the metal manufactured is increased by the cost of manufacture, and by its assuming the character of money. In the latter case, the silver coin is relatively more valuable than the gold coin, by reason of the additional seignorage, and the comparatively greater time consumed in its manufacture. Upon the same principle a piece of silver containing 165 grains fine, has *not* the same purchasing power as the rupee, simply because new elements of value have been imparted to the latter.

It is perfectly true, as stated by Mr. Strachey, that the relative values of gold and silver in London, when the latter sells 5*s.* 1*d.* per ounce standard, are as 15·45 to 1. But, on the same basis, and by parity of reasoning, it is equally true that the relative values of the 15-rupee gold mohur, which contains 165 grains of fine gold, and the silver coin, which contains 165 grains

of fine silver, are not far from 15 to 1. For the sake of greater clearness, I give the following example, *vis.* :—

	£	s.	d.
An ounce of gold (containing 440 grains fine) laid down in India costs in London	3	17	10½
Freight and insurance as before at ⅔ per cent.	0	0	8
Seignorage at Indian Mint for coinage	0	0	9
	3	19	3½

An ounce of silver containing 444 grains fine costs in London £0-5-1			
Cost of 440 grains, say	0	5	0½
Freight and insurance as before at 1½ per cent.	0	0	0½
Seignorage at 2 per cent. and loss of interest during coinage.	0	0	1½
	0	5	2½

	£		
Relative value {	Gold	. . . . . 3 19 3½ = }	1516
	Silver	. . . . . 0 5 2½ = }	1

Again, the relative proportion would only be 15·02 to 1 were sovereigns to the value of an ounce of gold substituted for the bullion, because in this case there would be no seignorage.

I do not offer it as an attempt to solve the reasons why the Legislature of the day fixed on 15 to 1 as the proper adjustment of the ratio of gold to silver ; but I do think that they had not lost sight of the fact that, under the Indian mintage rules, new elements of value attach to the precious metals after being converted into legal tender currency.

Be that as it may, it is clear that the difference between the relative values fixed by the Act of 1835 and the relative values which I have brought out on the basis of Mr. Strachey's example, when the price of silver in London is 61*d.*, is, after all, not very material, and I think that a slight change either in the price of silver or in the charges of shipment will restore the equilibrium.

Having shewn, then, that the relative values of gold and silver, as fixed by the Act of 1835, do not vary much from facts established hereinbefore, I deem it unnecessary to dwell on Mr. Strachey's proposal to reduce the weight of the Indian gold coin from 110 grains of fine gold to 106·76 grains. This valuation is apparently arrived at on the assumption that the relative values of gold and silver in India are precisely the same as they are assumed to be in London, *vis.*, 15·45 to 1. I hope I have clearly enough demonstrated that the proportioned value is not applicable to India, even if the assumption were thoroughly correct.

But before going into other arguments adduced by Mr. Strachey, I notice (1) the statement that the actual cost of coining new gold pieces shews that, including the minting charge of 1 per cent., there will be an absolute loss of 1·42 per cent. on the conversion of sovereigns at 122·5 grains into gold mohurs of R15 at 180 grains. Lord Sandhurst has already pointed out that the alleged loss brought out by Colonel Hyde's method of computation is imaginary. I presume to think that I can establish His Lordship's opinion from actual facts.

I must, however, at once admit that the burden of proof lies on the Commission who recommended the rating of the sovereign at R10-4 to shew

that it does bear, as nearly as possible, the proportion of 15 to 1. This I have done in a former portion of this minute, and I now proceed to test the accuracy of the Mint Masters' method of calculation, supposing sovereigns from England and Australia were melted down, and subjected to the Indian mint charge, thus :

	R
1,000 Sovereigns purchased at R10-4 cost	10,250
1,000 Sovereigns, each containing 113 grains of fine gold	= 113,000 grains
will yield mohurs of 165 grains fine	= 684'85
less seignorage at 1 per cent.	6'85
	678
Net mohurs	678

shewing that every gold mohur costs only R15-1-10 *after paying mint charge of 1 per cent.*, or a loss of little over $\frac{1}{4}$ per cent., instead of 1'42 as brought out by Colonel Hyde. Let the following practical tests be tried at the mint :—

- I. Let Government purchase 1,000 of the new beautiful dragon sovereigns (which, by the way, sell at 6 pies each under the price obtained for Australian* Australia and England in large and other English sovereigns), quantities. send them to the mint for re-coinage, deduct the seignorage of 1 per cent., and ascertain how much under 678 gold mohurs the yield is.
- II. Repeat the same process with 1,000 sovereigns from the first remittance received in sovereigns from *Australia* by any of the banks, give credit for the comparatively more valuable alloy, and ascertain how much short of 678 gold mohurs the yield is.
- III. Take a mixed sample of sovereigns which find their way, from Egypt and from other quarters, into the bazar, exclude light coins or those *approaching the minimum quantity of gold for which they are legal tender, viz., 122'5 grains*, and ascertain how much short of 678 gold mohurs the yield is.

I say *approaching the minimum quantity of gold* advisedly, for the simple reason that, if loss is apprehended, the sovereign can be laid down advantageously by Government in England where gold is legal tender if *not under 122'5*.

I feel so confident of the results that I hazard the prediction that, in the three instances given, Government would gain, on the transaction, *at least $\frac{1}{4}$ per cent.*

I do not follow Mr. Strachey's argument further on this point, because he makes the admission that, in the event of *bar gold* being purchased, Government could obtain it in that form for coinage 1 per cent. cheaper than the ready money sovereigns, and therefore that no possible loss could arise. I contend, further, that every year that passes conclusively demonstrates the soundness of the conclusion arrived at by Lord Sandhurst's Committee, *viz.*, that R10-4 is a sound, scientific, and conservative rating, inasmuch as if a higher relative value had been fixed, the opposite and grave mistake would have been made of over-valuing gold and driving silver out of circulation. With reduced freight and insurance since 1867, the English sovereign can

easily be laid down in Calcutta at R10-2-0, instead of at R10-4-10, and
 * *N.B.*—Actual cost of shipment, from Australia at R10-2-7-44* against
 two years ago, to Calcutta. R10-2-9, the rate taken by the Commission.

With the prospect of fuller supplies of gold to our markets, the price of
 † *N.B.*—R10-6-0 on going to the sovereign has fallen in Calcutta from
 press. R10-12-0 to R10-7-0,† and in Bombay to
 R10-6-9; and it appears clear to me that it will soon fall to R10-4.

It is in this belief that, in my minute of 15th January, I have ventured
 to say that the present is a very opportune time for Government taking a
 further forward step towards the realization of what every writer on the
 subject considers a great boon to India.

If I might venture to offer an opinion on the proposal submitted by
 Mr. Strachey for the introduction of gold into our currency, I would say that,
 if adopted by Government, it would be in opposition to the declared opinions
 of our most eminent authorities against the practice of every European State,
 and against the course followed by America and France. Even Holland, who
 first took the alarm after recent gold discoveries, has now reverted to the gold
 standard. Lastly, the late Mr. Wilson, although he opposed the introduction
 of gold into the circulation of India, admits (Minute of 25th December 1859,
 section 25) that if it is desired to have the use of both metals in circulation
 of full value as coin, the transition period of a double standard is the mode in
 which the object can best be attained.

Although I have, in former minutes (*see* 7th May 1868, † 9th May 1868, †
 30th May 1868, † and minute of 10th August of the same year §), fully dealt
 with the question of supposed inconvenience to the teeming masses of India
 which may possibly arise from the adoption of the proposal now under discus-
 sion, still, as the Financial Secretary has again drawn my attention to the
 subject, it may perhaps suffice if I illustrate my arguments by showing the
 course followed by France and America under circumstances somewhat
 similar to our own.

Before doing so, however, I may advert to another difficulty in the way
 of our being able to introduce gold into India through the establishment of
 international currency.

|| See Return from the Royal Mint to an order of the
 House of Lords, dated 17th February 1870, and embracing
 a period between 1851 and 1869, inclusive, "Loss on
 Coinage."

In England since 1666,
 the expense of manufactur-
 ing the standard coin
 has been borne by the
 State||

At the Royal Mint in Sydney a charge averaging about one per cent.,
 and a delay in delivery of about 20 days, is made.

In France, the mintage for standard gold is between $\frac{1}{4}$ and $\frac{1}{2}$ per cent.,
 and the delay, which is variable, brings the charge up to from $\frac{1}{2}$ to $\frac{3}{4}$ per cent.

At the Mint of America (1867) the law now imposes, on all bullion, a
tar of the half of one per cent., and a coinage charge of the same amount.

In Prussia, the charge for coining gold is $\frac{1}{2}$ per cent.

At the mints in India, there is a charge of one per cent. on gold and of
 two per cent. on silver, with a delay in delivery of (say) ten days.

In France, by the law of 1803, five grammes of silver, nine-tenths fine,
 were constituted the monetary unit, retaining the name of a franc, but the

† Not printed.

§ Page 162 of this volume.

provisions of the law as to gold and also copper coins gave them a *legal currency and value independent of their relation to silver*. The result of this legislation was that a double standard was created by law in France. Silver, however, remained for many years the practical standard; but when, by the increased demand for silver for the East, the value of gold was depreciated in relation to silver, gold became practically the standard of value. The silver coins, of which nearly the whole circulation consisted, were melted down and exported, and the country was put to the expense of a large coinage of gold. If by any increased production of silver, the value of silver should be depreciated, a change would take place in the opposite direction, and similar inconvenience would again be incurred. (Report of Royal Commission, 1868, page 10.) Again in America, the value of the silver dollar has remained unchanged since it was fixed by the law of Congress in 1792: but the value of the gold eagle or 10-dollar piece was reduced in 1834 from 247½ grains to 232, and gold has now become practically the standard of the United States.

Both in France and America, the silver coin and standard are to this day *retained*, according to law, as an alternative measure of value. In England the double standard ceased practically in 1717, and by law, only in 1816. In Portugal, Turkey, and Brazil a single standard of gold prevails. Germany and Holland are at present in a transition stage, while in the Northern States of Europe and in the East, there is a single standard of silver.

As bearing upon the question of the danger arising out of the suggestion to rate gold above R10-4, I may here advert to the fact that in England, during the reign of James the First, the gold coin was *over-valued* by proclamation, and the result was the exportation of the silver coin, to the great inconvenience of the public.

Having the examples of France and America before us, and further experience in guiding us to avoid the errors into which they were led, I need not dwell on this part of the subject much longer. I would only beg the favour of your turning to Minute of 9th May 1868,* in which you will find described the reasons for which, in my humble judgment, it is politic and necessary to leave untouched our present measure of value, *viz.*, the rupee, and its component parts expressed in lower denominations. I only quote the following sentences:—

“ I.—The price of gold and silver is, like the price of every other commodity, subject to the universal law of supply and demand, and it is *impossible* to fix their relative values with *exactitude*, or by an unchangeable decree; but the figures which I sent you yesterday give us a *starting point as near to equality as can be devised*.

“ II.—The proposal for the introduction of gold, by the operation of the double standard, or a double legal tender, or alternative measure of value, under the conditions already adverted to, is not intended to have the effect of bringing about a sudden, violent, or immediate change in the present standard of value. On the contrary, no change whatever

N.B.—See also quotation in Minute of 16th January 1872 beginning “any alteration in the standard of value,” etc., page 7. will be made in the existing standard, nor will it, in any way, be affected in value by the introduction of gold as a substitute, in part for a silver circulation. It is quite clear

* Not printed in this volume.

indeed, that for a time to come, silver, owing to the smallness of transactions among the lower classes throughout the interior, must continue to be extensively used."

Every writer of recognized authority, in times past and in our own day, gives the preference to a single gold standard. Should those who administer the finances of India see their way to introduce gold into the currency of India, I know of no safer, sounder, and more just way than that set forth by His Excellency Lord Sandhurst, yourself, and the majority of the members of Council, and which it has been my privilege, from deep conviction of its truly conservative and practical nature, to support to the best of my ability.

The present generation may not see the time when it may be found expedient to demonetize silver in India; but if those who now guide her destinies, lay the foundation of a measure calculated to give to the people a more acceptable metallic circulation than exists at present, they will have done their part wisely and well. I conclude by reminding you that at a time when gold was nowhere a legal tender in India, except on the coast of Coromandel, and, in a limited way, in gold mohurs at the principal British settlements, the relative proportion of gold to silver coined at the Mints in Calcutta and Madras was about one-fourth, whereas, since the Act of 1835, and the prohibition of 22nd December 1852, the proportion has been about 1 in 113·45, down to the end of 1864-65.

I write in the midst of severe official pressure on my time, and, if I have not observed nicety and exactitude of expression, you will, I hope, under the circumstances, make allowances for me. I now conclude as I began, by expressing my admiration of the great ability shown by Mr. Strachey in his handling of the subject, and if I have ventured to differ from him, I trust, should this minute ever come under his notice, he will do me the justice to believe that I take so much trouble in the endeavour to meet his arguments, because they are entitled to more consideration than any others brought to my notice, and because I hold the views to which I have imperfectly given expression, from nature and long conviction.

XXII-D.

NOTE BY E. GAY, ESQ., DEPUTY COMPTROLLER GENERAL, DATED 27TH FEBRUARY 1872.

The proposals of Mr. Dickson appear to be well worthy of consideration; if it be once settled that the introduction of a gold currency into India is to be attempted by Government. The step he suggests, *viz.*, that Government should undertake to exchange gold freely for silver, is probably the safest that could be taken if progress is really desired.

The experiment will not be fairly tried unless some pledge is given that the offer to exchange sovereigns freely for silver will not be revoked without reasonable notice. Importers of bullion will not dare to trust to an article that may be difficult to dispose of without loss; hence arises the danger that, if the measure do not succeed, Government may be compelled to continue to receive gold which cannot readily be paid away to persons having claims on Government.

But Mr. Dickson shows that, in such a case, sovereigns could be sent home at a cost equal to an exchange of 1s. 11½*d.* Assuming these figures, Government might well accept the risk to a considerable amount as the present state of the market promises no better rate for the ensuing year. I may add to his argument that the large balances now in Government treasuries make the experiment less hazardous this year than it may be at another time.

The measure would no doubt be acceptable to the banking and trading community in large towns. If the price of sovereigns were guaranteed in India, one element of doubt in cash remittances, *viz.*, the varying comparative values of the standards—gold in England and Australia, and silver in India—would be removed. Coin could be obtained in London which would without charge for seignorage or delay be as good as coin for India. The remittance would be more portable, and give in many ways less trouble. On the other hand Government would lose the profit on coining, and might find the circulation of currency notes affected.

But, regarded from the point of view of the millions whose transactions never reach above a few rupees, it may well be doubted whether any measure tending to bring in gold as the standard of value can be considered an improvement.

XXII-E.

NOTE BY R. B. CHAPMAN, ESQ., FINANCIAL SECRETARY, DATED 27TH MARCH 1872.

I do not feel called upon to add, more than is unavoidable, to the volumes that have been written on this subject already. I have read the whole, carefully and anxiously several times, and I do not flatter myself that I can adduce any arguments of weight which have not already been used. But, with much diffidence, I proceed to record my present judgment as requested by the Financial Member. The subject must be divided into two great questions—

First.—“Is it desirable to make gold the standard of value in India?”

Second.—Will the measures now proposed by Mr. Dickson further that object?

Upon the first great question, which really underlies the whole discussion, I find, strange to say, in all the papers, very little but assumption. All *assume* that, beyond all question, India is ripe for a gold standard; yet I venture to say that even the enquiries of the Commission, though they establish formally the undoubted fact that gold is highly appreciated in India, do not throw much light upon the fundamental question of which I am speaking.

Lord Sandhurst argues that, according to the stage of advancement which a nation has reached, its currency should be iron, copper, silver or gold; but he does not attempt to prove that India has reached the “gold” stage.

No doubt, for a nation the average of whose transactions is sufficiently large, gold is by far the most convenient standard. But it cannot by any means be assumed that gold is the proper standard for a nation whatever its stage of development. The most recent paper by eminent authority that I have seen, is an article on “Money” by Chevalier in the *Journal des économistes*. I find in it nothing more positive than this—“It appears that modern Europe tends to employ as money ‘gold,’ which is the dearer and rarer of the two metals” (gold and silver).

I cannot help thinking that if we now take any decided steps for introducing a gold currency into India, we shall be taking somewhat of a leap in the dark, and it seems to me that even the advocates of a gold currency do feel some hesitation on the subject, and that this hesitation is manifest in their rather inconsistent advice. They would have gold; but they shrink from any measures involving a very decided drain of silver, though it seems to me clear that we cannot at the same time have both metals.

It may be accepted as an axiom, that gold and silver cannot both circulate in a community, for long, simultaneously as standards of value. So much has been said upon this point in these papers, and the truth is so universally accepted, that I need not take up time in demonstrating it—one metal will oust the other. Supposing that the relative value be very exactly fixed, and that nothing supervene to disturb it, the process may be a long one (even that is not very likely), but it is absolutely certain that, in the long run, both metals cannot circulate as standards each at its full intrinsic value.

Supposing, therefore, that gold become the standard of value in India, it will be absolutely necessary, sooner or later, in order to keep in the country,

silver coin enough for subsidiary purposes, to debase our silver coin. Our silver coinage must bear a higher nominal than real value, in other words must become a *token* coinage, or we should not keep enough for our wants.

Now, whatever success may attend the introduction of a gold currency, a very large amount of silver will always, or at any rate for a very long time, be required for the purpose of currency in India. It will be very long before the masses of the people will use a gold currency : their transactions are far too small. It follows that we shall have to substitute, for the use of the masses of our population, a token currency for the present full value currency. Are we at all certain what the effect of this will be upon the ignorant population ? Or how a silver token currency will work alongside of a full value Native State silver currency ? Lord Sandhurst has, at page 113 of the accompanying volume, argued with great force against the attempt to circulate among the people bank notes or paper currency in any form. "The people," he says, "hug the idea of intrinsic value in coins of the precious metals which will last for ever which will be again found, if war sweep over the country and destroy all that is above ground." And again, "of all people in the world the population of India carries practically and keenly into execution the principle that the money actually current is a commodity which must possess the intrinsic value it assumes to represent. To them bangles are convertible into rupees and *vice versa*. Thus in some Native States the people refuse in their retail operations to take the British rupees without a slight discount, because they declare, whether rightly or wrongly, that the rude rupees supplied from the native mints have more of silver in them, or are freer from alloy, than the British rupee"—and much more, very forcibly put, to the same effect.

Lord Sandhurst was arguing against the paper currency which he evidently felt to be a dangerous rival to gold. I think he overdid the argument in various ways, and that experience has actually proved this. But still there does remain great weight in his observations.

Apparently, however, Lord Sandhurst had forgotten that he had already stated, as a mere truism that "a token coin merely means a metallic bank note." This is obviously true. But then the whole of Lord Sandhurst's strong arguments against a paper currency become to the full as applicable against a silver token currency which must eventually be a *sine qua non* of a gold standard.

I do not think that sufficient attention has been given to this part of the subject ; and I would not recommend any very active or effectual steps being taken for the introduction of a gold standard until the effect upon the mind of the natives of substituting "metallic bank notes" for the full-value silver coinage to which they have, from time immemorial, been accustomed, and which they so highly value shall have been carefully considered and, so far as may be, enquired into.

I can find nothing in the evidence given before the Commission to show that the witnesses who favoured gold were aware that it would be necessary sooner or later, if you introduce and keep gold, to depreciate the silver currency which must, for generations to come at any rate, be the ordinary currency of the people. I confess that I myself am so apprehensive of what the effect might be that I should hesitate to take measures for adopting a gold standard until it be really forced upon us. *At present* I venture to maintain that there is no demand whatever for a gold currency by any section of the community.

There *was* a demand when Lord Sandhurst wrote his minute in 1865. During the American war the value of Indian cotton rose so enormously that the balance of the trade of India with the rest of the world was altogether disturbed, and huge importations of bullion became necessary. Moreover, at that time, the paper currency was little developed, and India was still borrowing money largely at home for railways, etc. Lord Sandhurst wrote his elaborate minute under the influence of that abnormal state of things, perhaps under the impression that it would continue.

It may be admitted that *if it had continued*, India would have been very soon driven to take much more gold than silver in payment for her exports. Silver, in fact, would not, for long, have been forthcoming for remittance to the East at the same rate, and a gold currency here would very likely have become a necessity. But the moment the American war came to an end, the excess of our exports over imports fell from 40 to 13 millions, and pressure ceased.

It may be that it is now again slowly coming on; though if we are able to abstain from borrowing, the process will be checked, and, in any case, we are not likely, for the present, to borrow as largely as we were doing. However, sooner or later, it may be that the demand for silver for the East may again cause inconvenience, and the price of silver may rise until imports of gold become more profitable. Whenever that time comes, but not, I think, till then, it will be proper to take up the question of substituting a gold standard for a silver standard.

For the present, though I admit that gold would be pleasant and convenient for the trading classes, I do not believe that the masses of the people have any desire for a gold *currency*, and even the great cities do not really greatly want it. The paper currency has largely supplied their wants. A silver standard is as good a basis for paper as a gold standard.

To turn to the second question—What must be done if it be resolved to introduce a gold standard?

I answer there is really but one way of effecting the object. Gold must be declared a legal tender and rated favourably.

Mr. Dickson's proposals are certainly most moderate. He asks only that the Government shall, without declaring gold a legal tender, undertake to accept sovereigns at $\text{R}10\text{-}4$, and Indian gold mohurs at an equal rating, *i.e.*, at par, in payment of all Government dues *and in exchange for currency notes, i.e.*, for silver; for currency notes can be exchanged for silver at once. He does not propose to make gold a legal tender.

Sovereigns are already received at our treasuries in payment of Government dues at $\text{R}10\text{-}4$, so that the proposed innovation is really confined to making the sovereign exchangeable at the currency offices, and so, freely; for silver.

I cannot recommend this measure being adopted. I agree with Lord Sandhurst, who wrote on the 9th February 1869—

“There should be no attempt at regulating the value of gold by further notifications unless Government be prepared to concede the legal tender.”

I cannot think it likely that Mr. Dickson's proposed measures would have any effect. Even with exchanges exceptionally high as they have recently been, the sovereign has never fallen below $\text{R}10\text{-}7$, and no sovereigns whatever have been paid into our treasuries for three years. How should they be with prices as they have been? It is clear, I think, that sovereigns will only come to us at $\text{R}10\text{-}4$ when silver is worth in London $62\text{'}3d$. an

oz., a price higher than we have seen for a very long time. I think that we should only expose ourselves to ridicule by making any further notification based upon the anticipation that this price will recur.

Mr. Dickson seems to anticipate some great effect from his proposal that the Government should accept sovereigns freely at $\text{R}10\text{-}4$ in exchange for silver; but I fail to find in his papers any solid reasons for this expectation, and I cannot but remark that this same high authority originally advocated the 10R rating, now admitted to have been a blunder.

It may be that *some* effect would be produced by the security which Mr. Dickson's proposal would give to importations of gold. Doubtless, a still greater effect would follow if the law should declare sovereigns legal tender at $\text{R}10\text{-}4$. But not even then, can I see any good ground for expecting that people will offer to the Government, or to one another, that which is worth $\text{R}10\text{-}7$, at $\text{R}10\text{-}4$.

There have, no doubt, been times when, with abnormally high exchange, sovereigns have sold at $\text{R}10$ or even less, and, should such a time recur, we should get plenty of sovereigns paid into us at Mr. Dickson's rate; but, first, this is perhaps highly unlikely; and secondly, if it *should* happen, we should have placed ourselves in an awkward position by pledging ourselves to buy for $\text{R}10\text{-}4$ what would, in that case, be worth much less.

I agree with Sir C. Trevelyan and with Mr. George Arbutnot, as quoted by him (page 163 of the volume), that *we ought not to receive gold coin in exchange for currency note unless it is made a legal tender*. I do not consider Mr. Dickson's argument, that we could always remit sovereigns at an exchange of $1s. 11\frac{1}{4}d.$, a sufficient answer to the objection taken by Sir C. Trevelyan and Mr. Arbutnot; for, supposing sovereigns to fall below $\text{R}10\text{-}4$ in the market, exchange would approach $2s.$, so that a remittance at even $1s. 11\frac{1}{4}d.$ would involve a very heavy loss.

Nor can I agree with Mr. Dickson that we ought to take in all the gold we can get and give out none. As I have said, in my opinion, we should at present get none at Mr. Dickson's rating; but, supposing values to alter and gold to come in, we could only follow Mr. Dickson's counsel by maintaining high cash balances for this express purpose. It is of great consequence that, in the matter of the cash balances, we should embarrass ourselves with no consideration except the one consideration of what is the smallest sum with which we can work the administration. It may be proper, occasionally, to have high balances with reference to loan operations and the like; but if we once begin to keep them for currency purposes, we embark, in truth, on a course involving unlimited cost in interest for very vague purposes. Mr. Dickson, in fact, invites us to a large speculation in exchanges, and I cannot think this advisable.

The figures which I put up show that gold *is* coming into the country very freely as things are. The proportion of gold to silver in our bullion importations of late years has been fully maintained, and the absolute quantities of gold imported have been large. This process is going on, naturally and satisfactorily, without the Government committing itself to any dangerous experiments, or to any calculations of value that may be proved (as our past calculations have been proved), by experience, to be wrong. I would not, at present, take any further steps. In time, very likely, the large importations of gold that are going on will tell, and the price of gold in silver will fall until the rating of our coinage Act is reached. When that time comes, or a little before, it would, very likely, be desirable, *if not necessary*,

to declare gold a legal tender. But I do not think that the matter is one for empirical treatment. I would leave our present well alone.

Value of gold and silver imported from, and exported to, foreign countries at ports in British India in each year from 1850-51 to 1874-75.

YEARS.	GOLD.			SILVER.			Total of net imports of Gold and Silver.
	Imports.	Exports.	Net Imports.	Imports.	Exports.	Net Imports	
	£	£	£	£	£	£	
1850-51	1,155,310	2,016	1,153,294	2,656,498	539,273	2,117,225	3,270,519
1851-52	1,338,778	71,165	1,267,613	3,713,280	847,923	2,865,357	4,132,970
1852-53	1,341,106	168,805	1,172,301	5,490,227	885,203	4,605,024	5,777,325
1853-54	1,078,708	17,265	1,061,443	3,770,643	1,464,899	2,305,744	3,367,187
1854-55	882,721	151,431	731,290	1,145,137	1,115,537	29,600	760,890
1855-56	2,568,353	2,108	2,506,245	8,792,793	598,418	8,194,375	10,700,620
1856-57	2,176,002	84,788	2,091,214	12,237,695	1,164,448	11,073,247	13,164,461
1857-58	2,830,084	47,011	2,783,073	12,985,332	766,384	12,218,948	15,002,021
1858-59	4,437,339	10,886	4,426,453	8,379,692	651,350	7,728,342	12,154,795
1859-60	4,288,037	3,803	4,284,234	12,068,926	921,363	11,147,563	15,431,797
1860-61	4,242,441	9,872	4,232,569	6,434,636	1,106,627	5,328,009	9,560,578
1861-62	5,190,432	6,007	5,184,425	9,761,545	675,089	9,086,456	14,270,881
1862-63	6,881,566	33,410	6,848,156	13,627,401	1,077,244	12,550,157	19,398,313
1863-64	8,925,412	27,106	8,898,306	14,037,169	1,240,450	12,796,719	21,695,025
1864-65	9,875,032	35,068	9,839,964	11,488,320	1,409,522	10,078,798	19,918,762
1865-66	6,372,894	648,418	5,724,476	20,184,407	1,515,734	18,668,673	24,393,149
1866-67	4,581,472	739,143	3,842,329	8,655,132	1,692,360	6,963,072	10,805,401
1867-68	4,775,924	166,457	4,609,467	6,999,450	1,405,489	5,593,961	10,203,428
1868-69	5,176,976	17,624	5,159,352	9,978,978	1,377,956	8,601,022	13,760,374
1869-70	5,690,400	98,233	5,592,117	8,264,407	944,070	7,320,337	12,912,454
1870-71	2,785,975	500,453	2,285,522	2,662,237	1,720,313	941,924	3,227,446
1871-72	3,573,778	8,434	3,565,344	8,007,525	1,487,209	6,520,316	10,085,660
1872-73	2,622,371	79,009	2,543,362	1,934,214	1,219,070	715,144	3,258,506
1873-74	1,648,807	266,169	1,382,638	4,143,726	1,647,902	2,495,824	3,878,462
1874-75	2,089,236	215,700	1,873,536	5,733,776	1,409,608	4,324,168	6,197,704
TOTAL	96,469,154	3,410,431	93,058,723	203,153,446	28,883,441	174,270,005	267,328,728

XXII-F.

NOTE BY H. SANDEMAN, ESQ., OFFICIATING COMPTROLLER GENERAL, DATED
28TH MARCH 1872.

Putting aside theoretical arguments which can always be made to suit the views of the writer, I think the real consideration in this very large question should be whether, in the event of Government being able to introduce without ultimate loss to itself, a gold currency as a legal standard, alongside of a silver currency, already a legal standard, the general public of the country require such an introduction. If we regard the bulk of the population, I think that the reply to such a question must be negative; they rarely touch silver, and would certainly never touch gold; their wants are few, and (with the exceptions of their apology for clothing, which is supplied to them more cheaply from England than from Native looms, and their few metallic utensils which they purchase once or twice only during their whole lives) are all supplied in their own villages. To meet these wants, copper coin and shell tokens are principally used and found sufficient, while the ordinary wages of labour, even if paid once a month only, would rarely reach the smallest denomination of gold coin; and even if they did so, a payment in gold would but subject the recipient to a loss, as the coin, until converted into silver or copper, would be practically useless to him, and he would be obliged to have immediate recourse to the money-changer, at whose mercy he would be for terms of exchange.

If we go beyond the bulk of the population, and consider those who are sufficiently well off to deal in large sums of money, we have a perfected system of paper money, which enables persons to pass money in a convenient form, and, by the facilities it offers for remittance purposes, serves as a wholesome check upon extravagant rates of inland exchange. I notice this particularly, because one of the strong arguments against a silver currency is its bulk, and consequent inadaptability for remittance, whereas it is urged that gold is easily moved, and involves a smaller cost in transport. Many of the arguments against silver adduced in 1864 have proved to be fallacious: thus, for instance, the present price of the metal in England, as compared with the price in 1864, shows that the fear that Europe would become denuded of silver to supply the East was groundless. My opinion is that it would be unadvisable to introduce gold into India as a legal tender, and that for many years to come we shall be doing as much as the country wants by supplying it to those who wish to receive it for their own convenience. If we go beyond this, we shall, I think, inflict a hardship upon the public at large, and benefit no class except the money-changers.

XXIII.

NOTE BY THE HON'BLE SIR R. TEMPLE, DATED 8TH JULY 1873.

I much regret that His Lordship the Governor General does not find it possible to take up during this year the subject brought forward by my memorandum of the 19th June 1872, regarding the introduction of a legal tender gold currency into India. But I desire to take this opportunity of recording my views as to the course which ought to be adopted by the Government of India in respect to this matter.

I will not attempt to repeat the reasons given in the memorandum of June 1872 to show that a legal tender gold currency is among the real needs of India. The belief or disbelief in the reality of this need is at the root of the matter. If we firmly entertain this belief, then we shall address ourselves to the removal of the difficulties which are more or less inevitable in a question of this sort. If we have not such belief, then it is not to be expected that such difficulties can be successfully combated. Therefore, in June 1872, I began the renewal of the discussion by endeavouring to prove the existence of the need.

After adducing those reasons, I recommended that the Government should decide that a legal tender gold currency is needed; that a Commission should be appointed in order to ascertain definitely what should be the rating or the relative value of gold and silver; that meanwhile certain subsidiary measures should be taken in order to attract gold in greater quantities than heretofore to the treasury in India.

I am still in favour of these steps being taken. I am far from sanguine

"I. To authorize the receipt of English and Australian sovereigns into all the Government treasuries of India without restriction, and whether tendered in payment of Government dues or in exchange for silver.

"II. In conformity with the provisions of the Currency Act, to authorize the issue of Currency Notes in exchange for gold bullion tendered at the mint for coinage into Indian gold sovereigns at the rate of 10 rupees per 120 grains of gold of standard fineness less seignorage."

that the subsidiary measures (which for facility of reference I extract in the margin) would, if adopted, attract any large quantity of gold into our treasury; indeed, I rather fear that they would not, for the present at least. But they are at least safe, and at the worst could do no harm. And in one particular way they could hardly fail to do good. For, either they would attract gold, or they would not. If they did, then the fact would afford proof, in addition to any proof already existing, that the rating of Rs. 10 for the 120-grain gold piece, or of Rs. 10½ for the sovereign, is a correct and adequate rating, corresponding to 15 to 1, and that by offering this rate we are offering enough silver for the gold. If they did not attract gold, then the fact would afford additional ground for the opinion that the above rate is not quite enough; that instead of the proportion 15 to 1, the proportion should be 15 and a fraction to 1.

Even if the Government of India is not prepared to take any other step, I should still ask that these two steps be taken in order to contribute something towards the solution of a difficult question.

In regard to the proposal to appoint a Commission to investigate again the relative valuation of gold and silver, I desire to explain further the object of this enquiry.

A Commission was appointed in 1866 by the Government of India to examine this point among other points relating to the currency of India. They reported that the rating of 10½ rupees to the sovereign, or Rs. 10 to the 120 grains, was the best that could be arrived at; and that this corresponded

with the rating embodied by Act XXVII of 1835 (since incorporated with the Consolidated Currency Act, XXIII of 1870); they cited much important evidence to show that gold from Australia could be laid down in India at this rate.

At that time, 1866, a rate of Rs. 10 was being offered by the Indian treasury for British or Australian sovereigns, but no permanent success was obtained, and the prohibition of 1854 against the receipt in the treasury of gold pieces of Indian coinage was maintained. In 1868, however, the Government of India notified that sovereigns would be received at the treasury in payment of sums due to Government at a rate of Rs. 10½, and that the gold pieces of Indian coinage would be received at the treasury in exchange for their respective sums of silver. These steps were in accordance with the recommendations of the Commission, and the hope was that, by these means, a fairer chance than previously for the influx of gold would be afforded.

At first some slight effect was apparently produced, and some supply, though slight, of gold was obtained at the treasury. But this became less and less, till of late it has almost died away. It may be said in general terms that sovereigns and gold pieces are not, and for some time past have not been, presented at the treasury.

Meanwhile sovereigns to a limited extent have been imported into India and have commanded in the Indian markets prices higher than 10½ rupees; indeed, the average price since 1869 has been hardly less than 10½ rupees.

During the same period the amount of gold imported into India has been less than during the four years previous to 1869; but since 1869 the amount of silver imported has been much less. The general fact indeed has been that the condition of trade has been comparatively adverse to the importation of the precious metal, and the relative proportion of importation of gold to that of silver has been quite as great as, or greater than, ever.

Again since 1869 the amount of silver coined in India has been much less than that coined during the four years previous to 1869. But the coinage of gold has been rather greater since 1869 than during the four previous years; and the proportion of gold to silver coinage, though still small, has been fully maintained. Indeed, it may be said to have slightly increased.

The subjoined table will illustrate the foregoing remarks.

Four years previous to Notification of November 1868.

	NET IMPORTED INTO INDIA.		COINED IN INDIA.	
	Gold.	Silver.	Gold.	Silver.
	£	£	£	£
1865-66	5,724,478	18,669,174	17,665	14,507,049
1866-67	4,188,195	7,936,692	27,725	6,118,857
1867-68	4,607,329	6,157,989	21,534	4,313,285
1868-69	5,159,352	8,601,022	25,156	4,207,031

Four years subsequent to Notification of November 1868.

1869-70	5,592,117	7,320,337	78,510	7,455,281
1870-71	2,292,122	941,937	3,994	1,806,751
1871-72	3,565,344	6,532,376	15,412	1,735,288
1872-73	2,543,363	715,143	31,795	3,930,751

Thus there has been some coinage of gold pieces even since 1869, and before that year this coinage was somewhat considerable, but at no time have these coins been in active circulation either among Europeans or natives. For the most part they are obtainable with difficulty. Their destination cannot be stated with precision, but it is well known that they are taken up by natives for hoarding or for uses other than circulation, and by natives not only in British territory but also in Native States.

Again it is seen that of the gold imported but a small portion is presented for coinage: the greater portion is used by the natives for purposes other than circulation.

On the whole, the present prospect of gold finding its way into the Indian treasury is not encouraging; and the question naturally suggests itself as to whether the rate offered of 10½ rupees for the sovereign and 10 for the 120 grains is really sufficient as representing the relative value of gold and silver.

Some authorities have maintained that at this rate it is not sufficient; that gold has for some time been, and will continue to be, worth more than this rate, and the present facts seem to lead to the support of that view. Other authorities, however, maintain that gold has not been in former times, and will not be in the future, worth more than this rate; and it is to decide this question that I should desire to see a fresh Commission appointed.

Doubtless the relative valuation of gold and silver is a subject not admitting of absolute demonstration. Among the difficulties which beset the question there is this, that the relative value fluctuates slightly from time to time. Still, after consideration of all the circumstances, an approximate average valuation should be, and would be, ascertainable. Necessarily the matter is one of opinion, and demands a very impartial inquiry, but after such an inquiry had been made, a trustworthy opinion could be formed. The problem may be difficult, but it must have been solved by every nation that has changed, or may be changing, its standard from silver to gold, and similarly it ought to be capable of solution by the British Government in India.

The question to be propounded for investigation by such a Commission would be this: whether the present rating (Rs. 10½ and 10 for the sovereign and Indian gold piece respectively) is sufficient for the permanent relative valuation of gold and silver with a view to gold being declared sole legal tender, and if it be not sufficient, then how much higher should it be? Nobody probably would urge that the rate should be less. So far there seems to be no doubt. The existing doubt merely relates to the question whether something more than the ten rupees and four annas, say ten rupees and six annas, or at the most ten rupees and eight annas should be taken. The point is one which ought to be referred to persons of every special experience and such a Commission could be appointed in India as would present a valuable opinion. When such an opinion has been presented, I should desire to address the Secretary of State with a view to a farther reference being made to experts in England. The results would be collated of the experience gained in countries where a change from a silver to a gold standard has been recently made, or is being undertaken, as in Germany, Holland, France. By these means I should expect that the Government would be able to arrive at a safe and sound conclusion. It is equally important to avoid fixing too low or too high a relative value for the gold coins relatively to the silver; but as from the nature of the case a just determination must be arrived at, as an indispensable preliminary to our having a gold currency at all, I would

endeavour to form a determination by the means above stated, and if we succeeded in reaching such a conclusion, I would act upon it.

Accordingly, gold would be declared legal tender at the rating so determined.

But, in the first instance, gold could not be declared sole legal tender, and silver must for a time continue to be legal tender also, for this reason that there is not now, and probably may not be for some time, enough gold in India to suffice for the circulation of the country if gold were to be declared sole legal tender for every amount above a trifling sum.

Doubtless, if gold were to be sole legal tender, it would become an article of prime necessity, and would within a moderate time be imported in the required quantity, but in the meantime (it might not be for long) there would probably be an insufficiency of gold for the purposes of circulation.

The insufficiency, however, might not be so considerable as would at first sight appear to be the case. For although we seldom see gold at the treasury, we know that it must largely exist in the country. Among the papers appended to my memorandum of the 19th June 1872 will be found a table showing the importation of gold within the last twenty years alone; and the net total (re-exports deducted from imports) amounts to 90 millions sterling. If an antecedent period be taken, a still larger total would be brought out. Of the amount shown above, a portion must have been used up or wasted, and would not be available for coinage; but it is reasonable to anticipate that a considerable portion would be brought out and presented at the mint for coinage if this metal were declared legal tender.

So also the balance in the value of the trade in merchandise is much in favour of India, and is likely to continue to be so. Already gold has a large part in the adjustment of this balance, even when it can fulfil no function in respect to the circulating medium, and might have a still larger part if after reaching India it had an important circulating function to perform.

On the whole, there ought not to be any excessive difficulty in obtaining gold if that metal were declared legal tender.

Still, at the first, it would be desirable to leave silver as legal tender equally with gold, until gold should so establish its position that it might be declared sole legal tender. With its natural superiority, and with the equality of position as legal tender, it is to be expected that gold would ere long assert itself in supersession of silver; and as soon as the country should be assured of this by the actual position of the two metals, there would be no hesitation in declaring gold sole legal tender.

If both gold and silver were for a time legal tender, then, inasmuch as their relative value will fluctuate slightly from time to time, payments would be made in one or the other, according to the circumstances of the time; consequently first the influx of one would predominate and then that of the other. It might be that at the outset silver would maintain its position. For instance, at the present moment it might not be driven out by gold declared concurrently legal tender. But sooner or later the revolving changes would turn in favour of gold, and the moment that such should prove to be decisively the case, gold would be declared sole legal tender for all save trifling sums, and silver would be demonetized.

Of course we must be prepared for the objections usually raised against a "double or alternative standard" of gold and silver. But these objections apply (and justly apply) only to the permanent maintenance of a double standard. It can hardly be denied that if the change from a silver to a gold

standard be *per se* necessary or very desirable, then the objections to a double standard must be endured for a season, in the confidence that ere long circumstances would afford the desired opportunity of terminating the double standard and making gold the single standard.

Moreover, if at the outset silver were to hold its own, then for that time the fact of gold being also legal tender could do no harm, for it would be inoperative, and the double standard would not be practically felt by any one, as the only standard in use would be silver. If, from subsequent circumstances gold should flow in, and if it became more advantageous to pay in gold than in silver, then the effect of the double standard would begin to be felt. But that would be the very moment when the occasion would be taken to declare gold sole standard, and thus the effect of the double standard would pass away for ever.

It would be impossible to predict in how short, or how long, a time this result would be accomplished. There might be delay, but in that case no regret need be felt, because a change in the currency cannot be precipitated, but must come about in the due course of circumstances.

On the other hand, no man can foresee how soon circumstances might arise to cause an influx of gold and to render it more convenient to pay in gold than in silver. The event might even supervene suddenly. Then the Government could not avail itself of that opportunity to introduce the legal standard gold currency, unless it had previously arranged after full enquiry, the relative valuation of gold and silver. Such arrangements must take time. When the event was already happening when the urgency was upon us, it would be probably too late to commence arrangements for changing the currency. The Government would be in a position of unreadiness and unpreparedness, and perhaps the opportunity would be lost. Moreover, a time of pressure and urgency, when larger commercial events might be occurring, would hardly be a fitting time for arranging a change of currency. Too much reliance might be placed on the transient facts and circumstances of that particular period, and too little on the considerations which permanently affect the value of the precious metals. Such changes should, I submit, be thought over deliberately beforehand, in times when there is no pressure, and then preparations would be judiciously completed against the day when pressure should arise. In this manner shall we be best able to make full use of the occasion which will in all probability arise ere long, though it may not at this moment be visible.

Herein, then, consists my answer to those authorities who perhaps deprecate any immediate steps being taken by Government, or who are in favour of delay because the matter does not press. It is very true that at this moment no pressure is put upon the Government from any particular quarter. But this circumstance, so far from being a reason for not moving, seems to me to be the very reason why the Government ought to move. At the best, some considerable time must be occupied in making the arrangements and settling the terms. Unless the Government is ready beforehand, it cannot introduce the change when the suitable moment shall arrive. Or, if, when the moment has actually arrived (and perhaps it may come suddenly and unexpectedly), the Government were to take the case up, then the settlement is not so likely to be correct and complete as it would have been had there been previous discussion and determination. Now, therefore, is the time for the adoption of preliminary measures.

XXIV.

*RESOLUTION, BY THE GOVERNMENT OF INDIA, FINANCIAL DEPARTMENT, DATED
7TH MAY 1874.*

The expediency of introducing a gold currency having been considered the Governor General in Council is not at present prepared to take any step for the recognition of gold as a legal standard of value in India.

XXV.

NOTE,* DATED 13TH JULY 1876, BY MR. R. B. CHAPMAN, SECRETARY, FINANCIAL DEPARTMENT, ON THE CONSEQUENCES TO BRITISH INDIA OF THE RECENT CHANGES IN THE RELATIVE VALUE OF GOLD AND SILVER.

The time is come when it is my duty to invite His Excellency the Viceroy and Governor General in Council to consider the effects upon the finances of British India of the recent rapid changes in the relative value of gold and silver. I deeply feel the responsibility which is thus imposed upon me; and I have not ventured to record this note without anxious thought and study during many months. The future prosperity of India depends upon a proper solution of the questions now presented for discussion: I pray that the Government of India may be led to a right decision upon them.

2. Till lately, the relative value of gold and silver maintained a stable equilibrium. From ancient times, indeed, there had been a manifest tendency for the value of the two metals to diverge; but such divergence† had, generally, been very gradual. For 40 years before 1873, the price in London of an oz. Troy of standard silver was never less than 59*d.*, and, from September 1850 to November 1872, it was never below 60*d.* Since November 1872, there has been a rapid separation of the values of the two metals, so that the present price (47*d.*) of standard silver in gold, in London, is more than 22 per cent. less than the price (60½*d.*) in November 1872. Moreover, the divergence has, of late, been extremely rapid, the price of silver in gold in London having fallen since December last from 56½*d.* to 47*d.*, being nearly 17 per cent. Even since Wednesday, the 5th, there has been a fall of 6 per cent., *viz.*, from 50*d.* to 47*d.*

3. Whatever be the causes of this phenomenon, its effects upon the interests of British India are momentous. India owes, and has to pay, in London, in gold, yearly, the sum of 15 millions sterling. Most of this great yearly charge is permanently fixed. The interest on the sterling debt and on the capital of the Guaranteed Railway and Irrigation Companies (together about 7 millions sterling); the pensions and annuities to our officers and their families; as much of the military expenditure as consists of pay and allowances; the pay of the Home establishments; and a large number of other payments, are fixed and cannot be reduced. Only a comparatively insignificant part of the whole disbursements from the Home Treasury is regulated by the current rate of exchange.

4. Possibly, some little economy may be secured in the optional part of the expenditure at home; but we certainly cannot calculate upon the disbursements from the Home Treasury being less than 14 millions sterling, which must be provided at all costs. Indeed, for the purpose of this enquiry, it is only prudent to calculate on our having to provide in London, year by year, the full 15 millions sterling without any set-off—

If Re. 1 =	20½ <i>d.</i>	£15,000,000 = in crores of rupees	17,56
	20 <i>d.</i>		18
	19½ <i>d.</i>		18,46
	19 <i>d.</i>		18,96
	18½ <i>d.</i>		19,46
	18 <i>d.</i>		20

* Appended to this paper are memoranda of subsidiary arguments and investigations bearing upon the various questions towards the solution of which suggestions are here made.

† An exceptionally rapid divergence followed the discovery of the Potosi mine in Peru in 1645.

That is to say, at an exchange of 1s. 8d., the adjusting entry under 25—*Loss by Exchange* must be three crores of rupees; at 1s. 6d., no less than five crores.

5. Omitting, on the one hand, *Income Tax* (an asset which we have lost) and the fictitious credits from the *Military Funds* (which add nothing whatever to our resources), and, on the other, the expenditure upon the *Bengal Famine* and the "*Extraordinary Expenditure*," the following are the amounts which might have been borne, year by year, under 25—*Loss by Exchange*, during the last six years, without producing actual deficit:—

	(Rupees omitting 000.)
1871-72	2,41,8
1872-73	1,71,7
1873-74	2,66,4
1874-75	3,09,0
1875-76	2,91,4
1876-77	2,20,9

Average for the six years 2,50,2

6. Other things being equal, then, the account is in equilibrium, on an average of years, if the adjusting entry under *Loss by Exchange* is not more than $\text{Rs } 2\frac{1}{2}$ crores, which is the amount that must be set down if a rupee is worth about 1s. $8\frac{2}{8}d.$ (exactly 20·5714d.). But, with exchange at this rate, we could bear no abnormal or extraordinary expenditure of any kind, and do nothing, in times of peace, towards reducing burdens, or providing for evil days. If a rupee is worth less than 1s. $8\frac{2}{8}d.$, there is actual deficit to the amount, roughly, of a crore of rupees for every penny less than this rate.

7. The Secretary of State has, repeatedly, enjoined the Government of India to provide a surplus, even upon the *estimates*, of at least 50 lakhs of rupees, which, if the *estimates* are framed with due prudence, would mean a surplus, on the *accounts*, of at least a crore of rupees. Common prudence, certainly, requires that the Government of India should not rest satisfied with any financial policy which does not aim at a surplus upon the *accounts*, under normal circumstances, of at least 50 lakhs of rupees.

8. Upon this basis, an average exchange of Re. 1 = 1s. 9d. is the very lowest compatible with financial safety. If the average falls below this amount, our expenditure should be reduced, or our revenues increased, as follows:—

s.	d.	
With exchange at—	1 8½	The account must be improved by lakhs of rupees—50
	1 8	1,00
	1 7½	1,50
	1 7	2,00
	1 6½	2,50
	1 6	3,00

9. These large improvements would produce a condition of bare financial safety, as represented by an average surplus, on the *accounts*, not on the *estimates*, of only 50 lakhs of rupees.

10. At present, a rupee is probably not worth 1s. 6d.; how much farther it will fall I cannot say: but it must not be assumed that because the foregoing table is not carried below 1s. 6d., that I feel any confidence whatever that a rupee may not fall to be worth much less than even this sum. If it falls to 1s. 5d., 118 lakhs must be added to the improvement necessary to produce bare financial safety, making 418 lakhs in all.

11. Nor, although the main consequences of the disorder, as affecting the finances of British India, may be shown in this simple form, can we, by any

means, conclude that this is all the mischief which the Government of India must recognise as resulting to India, from the disturbance of the old equilibrium between gold and silver.

12. Trade, indeed, will, ultimately, without any interference by the State, adjust itself to the new equilibrium of gold and silver, as soon as it is established with some degree of firmness. The object of trade is the exchange of commodities for commodities: any temporary derangement of the mechanism or instruments of exchange may cause temporary injury, but cannot permanently interfere with the substance of commerce. All that commerce demands is, that the value of the currency or currencies through which it works shall be *stable*. So long as this condition is attained, it is not of primary importance what the values of the currency or currencies are. We may, perhaps, even now, assume that, although the equilibrium of gold and silver has been violently and suddenly disturbed, a fresh equilibrium will, in time, be found. If so, trade will be quickly adjusted thereto: only, if no such equilibrium be found, if the values of gold in silver and silver in gold fluctuate continually and permanently, would trade between Great Britain and India become paralysed or greatly impeded for want of a standard. So far, therefore, as trade is concerned, it seems probable that the disturbance caused by the divergence between the value of gold and that of silver is temporary only, and will in time disappear: if so, though the disturbance is, while it lasts, most mischievous to trade, it need not cause very grave permanent anxiety.

13. But it is not so with other interests. The chief Civil and Military Officers of the State are natives of Great Britain, who are mere sojourners in India, having no intention of adopting the country as a domicile; and a large portion (more than 54 crores) of the rupee debt of India is due either to these officers or to other natives of Great Britain. In other ways, also, much capital belonging to our countrymen is invested in India. It is an absolute necessity to all these persons to remit to Great Britain a substantial part of their allowances, of the interest on their Government securities, and of the proceeds of their investments. The divergence of the values of gold and silver affects all these classes just as it affects the Government; for a given quantity of silver they get a less quantity of gold; for a given quantity of gold they must give a larger quantity of silver. The Government cannot be indifferent to the interests of these classes.

14. Under certain circumstances, the effect of the phenomena which we are witnessing may extend much farther still, even over the whole body politic; and it certainly will quickly so be felt.

15. Such, then, is the formidable disorder for which it is the duty of the Government of India now to seek a remedy.

In order to form a right judgment of what this remedy should be, it is of the utmost importance to make a right diagnosis of the exact causes of the disorder; for according to the causes must be the treatment. A wrong diagnosis, followed, as it must be, by wrong treatment, would only aggravate the evil, already intolerable.

16. The disturbance of the equilibrium of gold and silver from which we are suffering must be due to one of the following causes—

- (1) *the value of gold being unchanged, the value of silver is fallen;*
- or (2) *the value of silver being unchanged, the value of gold is risen;*
- or (3) *the value of gold is risen and the value of silver is fallen;*
- or (4) *the value of both metals is risen; but the value of gold is risen more than that of silver;*

or (5) *the value of both metals is fallen; but the value of silver is fallen more than that of gold.*

It is obvious that the treatment indicated, if the disturbance is caused by a fall in the value of silver, is very different from that required, if it is due to a rise in the value of gold.

17. In the former case, simple justice to all interests, including those of the State, would demand a rectification of the standard of value. If more commodities can be procured now in exchange for 122 oz. of silver than could be procured last December in exchange for 106 oz., or in November 1872 in exchange for 100 oz., then, considering the intention of a standard of value, justice requires that our standard should be so re-adjusted that debtors should not be allowed to liquidate by the delivery of 100 oz. of silver, obligations which are equitably represented by 122 oz.

18. In this case the only problems for solution would be—

- (1) How far back would it be proper to carry the rectification; should the whole 20 per cent., or if not how much, be added to the standard unit of value?
- (2) How should the rectification be effected; whether by a simple increase of the weight of the standard unit; or by a change of the substance itself of the standard—as, for instance, by the substitution of gold for silver? and
- (3) By what detailed processes should the change in the weight or substance of the standard be effected?

19. The rectification of the standard would, to the extent that it was deemed practicable and expedient, neutralise all the disturbance, and, though at a great cost to the State, rescue from disorder, both the public finances and all private interests. To such rectification no one could, in such case, justly or reasonably object.

20. If, however, the value of silver is not fallen, but the value of gold is risen; if as many general commodities can be procured now in exchange for 100 oz. of silver as could be procured in December last or in November 1872, only less gold can now be procured in change for the same quantity of either silver or other general commodities,—then, whatever the proper remedy may be, it is certain that justice (and in questions of public policy, at least, justice cannot be divorced from expediency) forbids the enhancement of the value of the standard of value. It is true that such enhancement (if it could, in such case, be effected, which is open to very great doubt) would extricate, alike, the Government and the classes who are now suffering, from the loss and distress entailed upon them by the rise in the value of gold; but such relief would be purchased by throwing the whole loss and burden upon the class of debtors, *i.e.*, the class least able to bear it. An enhancement of the standard, under such circumstances, would be equivalent to an increase of taxation, not for the benefit of the whole commonwealth, *but especially for the benefit of all creditors.* Such a measure would be wholly unjustifiable.

21. Nothing would justify the State in adopting any measure involving an alteration of the standard of value, except upon clear evidence either (1) that the standard of value had abruptly lost value, or (2) that such loss of value was imminent. In the first case, measures for the restoration of the value of the standard, in the second case, measures for its preservation, would be proper; but in no other case, is any interference whatever with the standard of value, *i.e.*, with all the most intricate relations of society, justifiable.

22. If an enhancement of the standard of value is unjustifiable when the value of the standard is not diminished, *à fortiori* is it utterly out of the question

if the value of the standard is increased—if, for instance, in the present case, more commodities can be procured now in exchange for 100 oz. of silver than could be obtained in December last or in November 1872.

23. If the divergence between the values of gold and silver is found to be due, partly to a rise in the value of gold, and partly to a fall in the value of silver, then the consequence of the fall in the value of silver might and should be remedied by a re-adjustment of the standard ; for the consequences of the rise in the value of gold, other remedies must be sought.

24. The best, in some sense the only, method of ascertaining which of the five possible causes or combinations of causes already recited has disturbed the equilibrium of gold and silver, and so produced the present disorder, is to compare the values of gold and silver respectively, with those of other principal commodities since the disturbance began.

Tables* are, accordingly, appended to this note as follows :—

Table I.† —Half-yearly wholesale prices, in silver, in Calcutta, of certain staple commodities from July 1843 to May 1876, compared with their prices in January 1850.

Table II.† —Wholesale prices, in silver, in Calcutta, of the same commodities, at short intervals, from March 1873 to 26th June 1876, compared with their prices in March 1873.

Table III.‡ —Wholesale prices, in gold, in London, of certain staple commodities to January 1876, compared with their average prices from 1845 to 1850.

Table IV.‡ —Wholesale values, in London, in silver, of the same commodities, compared in like manner.

Table V.§ —Wholesale prices, in gold, in London, to April 1876 of certain staple commodities, compared with their prices in March 1873.

Table VI.§ —Wholesale values, in London, of the same commodities, in silver, for the same period, compared in like manner.

25. A careful study of these tables seems to point, beyond all reasonable doubt, to the following inferences :—

(1)—That prices of commodities, in Calcutta, in silver, are generally higher now than they were in January 1850 ; in other words, that the value of silver in Calcutta is generally lower now than it was in January 1850 :

(2)—But that the prices of commodities, in silver, in Calcutta, are generally lower now than they were in March 1873 ; in other words, that the value of silver, in Calcutta, is higher now than it was in March 1873. The only commodities that are dearer now than they were in March 1873 are *copper* (slightly) and *spelter, gold, and rice* considerably :

* In all these tables (Appendix V) the standard price, or value, for comparison, is shown as 100, the compared prices and values being reduced to this standard.

† NOTE.—The commodities of which the prices are compared in Tables I and II were selected by me, in consultation with Mr. Wood, the experienced Secretary of the Bengal Chamber of Commerce, as fairly typical of the trade of Calcutta, without any enquiry as to what results the statistics of their prices would show.

‡ The commodities of which the prices are given in Tables III and IV have, for some years past, been selected by the *London Economist* for the purpose of illustrating the course of prices in London. The returns from which these tables are compiled are published periodically in the *Economist*.

§ Table IV is prepared from Table III, and Table VI from Table V.

- (3)—That, since December last, the prices of commodities, in silver, in Calcutta, have rather fallen than risen, *gold* and *jute* alone shewing any considerable rise. There is no evidence, so far as the tables are carried, *i.e.*, to the 26th June 1876, of any fall in the value of silver in Calcutta since December 1875 :
- (4)—That, in like manner, the prices of commodities, in London, in gold, are, generally, considerably higher now than they were from 1845 to 1850 ; in other words, that gold is considerably less valuable now than it was then :
- (5)—But that prices of commodities were much lower in April 1876 than they were in March 1873 ; in other words, that the value of gold was much higher in London in April 1876 than it was in March 1873 :
- (6)—That the prices of commodities, in London, in April 1876 were decidedly lower than they were in December 1875 ; in other words, that the value of gold was decidedly higher in April 1876 than in December 1875 :
- (7)—That, in like manner, the values of commodities, in London, in silver, were much higher in January 1876 than in 1845—50 ; in other words, that the value of silver, in London, in January 1876, was much lower than it was in 1845-50 :
- (8)—But that the values of commodities, in London, in silver, were considerably less in April 1876 than in March 1873 ; in other words, that the value of silver, in London, was higher in April 1876 than in March 1873 :
- (9)—That the values of commodities, in London, in silver, in April 1876, were less than in December 1875 ; in other words, that the value of silver, in London, in April 1876, was rather higher than in December 1875.

I can thus come to no other conclusions, from an examination of these tables, than—

- (1)—That gold is risen largely in value since March 1873, and especially since December 1875.
- (2) That silver is also risen in value since March 1873, and not fallen ; and that it was not, on the 26th June 1876, fallen in value as compared with December 1875.
- (3)—That, thus, the disturbance of the equilibrium of gold and silver from which we are suffering, was due, up to the 26th of June, to a rise in the value of gold, and not to a fall in the value of silver.

26. The rapid fall of the price of silver in gold, during the last few days, makes it probable that the value of silver is now begun to fall.

27. I turn to examine how far the known facts of the case, *à priori*, tally with these conclusions. I have given reasons in the subsidiary memoranda for the opinion that the values of the precious metals depend entirely upon their use as standards of value, and their consequent manufacture into coin to act as instruments of exchange and for hoarding.

28. The best estimates * that can now be made show the stock of the precious metals won and in possession of the human race in 1848, *i.e.*, at the date† of the Californian gold discoveries, and now, to have been, and to be, as follows in millions of £ sterling :—

	In 1848.	In 1876.
Gold	600	1,200.
Silver	1,200	1,200†
Total	<u>1,800</u>	<u>2,400</u>

There is ground for assuming that the 1,800 millions sterling of 1848 would have exchanged for as many commodities as the 2,400 millions of 1876, in other words that the stock of the precious metals in 1876 is not, on the whole, more valuable than the stock of 1848. The net 600 millions sterling added in the 28 years have sufficed for the wants of the greatly increased population and extended commerce of the world, and have, moreover, caused a large decrease in the value of the precious metals, as manifested by the great increase of prices.

29. In 1848, England was the only considerable country with a sole gold standard of value and a gold currency. Holland had just then abandoned gold for silver. Wherever, in all the rest of the world, there was a metallic standard, silver was the actual standard; and the 1,800 millions together was not more than enough for the world's machinery of exchange, and for hoarding.

30. Since then the following nations have adopted a gold standard and rejected a silver standard :—

The United States of America	1853
Germany	1873
The Latin Convention—France, Belgium, Italy, Switzerland, and Greece	1874
Scandinavia and Holland	1875

In no part of Europe or America is there now a true silver standard of value.

31. Thus it appears that, since 1848, gold is practically becoming, by degrees, the only material for standard money throughout Europe and America, the duty of supplying standard money to this large and important portion of the whole world having been transferred from gold and silver combined, and imposed upon gold alone. Latterly, this process has proceeded with great rapidity. The appended memoranda contain some statistics of the actual movements of gold during the last few years in connection with this change in the practice of civilised nations.

32. The facts appear to me all to point, *à priori*, to a rise in (or recovery of) the value of gold, and to be quite consistent with the phenomena as to gold exhibited by the appended Tables of Prices.

33. I confess, however, that I should have expected, *à priori*, an earlier fall in the value of silver, as well as a rise in the value of gold. If the

* Mr. Seyd, in his recent book on the Fall of Silver, estimates much smaller amounts: but I think that the evidence is against him.

† At p. 242 will be found a synopsis of the dates of the principal events bearing upon the history of the precious metals since the discovery of America at the close of the 15th century.

‡ The weight of silver has increased by one-fourth; but its value in gold has decreased in at least as high a proportion.

imposition upon gold alone of the duty of supplying standard money throughout Europe and America fully accounts for a rise in the value of gold, still more, I should have supposed, would the exclusion of silver from this large field, and the partial liberation of the large stock hitherto employed in it, have caused a fall in the value of silver; especially as there has been, simultaneously, a decided increase in the production of this metal—an increase which seems very likely to continue.

34. The actual facts, however, seem to show, conclusively, that, to the 26th of June, the value of silver has not fallen as compared with March 1873, or even as compared with December 1875, but rather risen. Decidedly more commodities could be procured for the same weight of silver to the 26th June than could have been procured in March 1873, and some more than could have been procured in December 1875.

35. At the same time, all the circumstances indicate the strongest probability that the value of silver must fall soon, and it is probable that the rapid depreciation of the last few days betokens such a fall—

(1) The field for its employment has been greatly narrowed.

Not only has Europe ceased to use silver as standard money, but one certain effect of the divergence of the values of gold and silver will be, for the present, to turn the balance of trade against India. The whole exports of India on the present scale will not nearly pay for the whole imports plus the £15,000,000 annually due on the public account to England; and no silver will, meanwhile, be wanted for payment to India as hitherto. So that even the Indian field is, at present, lost.

(2) There are, still, large quantities to be expelled from the countries which have recently adopted a gold standard. Germany has, by the latest estimates, 15 millions,* or according to some high authorities, even 34 millions† sterling still to dispose of.

The Latin Convention has not yet begun to expel its silver, though it is passing really as notes for gold, and the continued employment of large masses of silver for this purpose is full of risk, and can, hardly, be tolerated for long. The amount of silver which France has to get rid of is very large, not less, perhaps, than 60 or 70 ‡ millions sterling. The Bank of France alone held on the 10th April last £21,411,000 § of silver. There seems much reason for thinking that if France does not rid itself of this silver, it will, in time, by the Gresham law, expel the gold. On the other hand, the cost of expelling the silver will be great; and France will doubtless be very reluctant to incur it.

(3) The production of silver is increasing, and there seem reasons for thinking that it may yet increase very largely.

* *Economist*, 27th May 1876.

† *Economist*, 3rd June 1876, page 656.

‡ Coined in silver in France under the law of 1873, besides the token coinage under the law of 25th May 1864	£
Net imports into France of silver since 1815 (official returns)	206,650,000
	52,180,000

[See Appendix 16 to the Report of Select Committee on depreciation of silver (1876).]

§ Worth, at 47d. an oz. troy, about 16½ millions sterling.

36. In the appended memoranda will be found reasons for the opinion that the present value of gold is likely to be at least maintained, if it do not increase, for a long period, say at least half a century. The adhesion of every new country to the single gold standard, and the complete introduction of a gold currency into the countries of the Latin Convention, must increase the value of gold and reduce that of silver.

37. Thus the *à priori* considerations point to the same conclusion as the experimental facts, *viz.*, that the equilibrium of gold and silver has been disturbed by a rise in the value of gold. But *à priori* considerations further point to the certain expectation of an immediate fall also in the value of silver, which fall is probably begun.

38. I am unable to think of any method of forecasting the extent to which gold may rise, or silver may fall, in value, or the period which must elapse before a new equilibrium is established. Both these things must depend upon future events, which cannot be foreseen with confidence. If no other nations substitute a gold for a silver standard of value, or, when all the nations have made the substitutions, then, by degrees—

- (1) Gold will settle down into a condition of stable value again, in its new place in the scale of values.
- (2) The disused silver of Europe will eventually be transferred to Asia, and silver will settle down to a new value there; and so a new equilibrium will be established between gold and silver. I believe that it must baffle human ingenuity to say, deeply concerned as we are to know, at what point, and how soon, this equilibrium will be found.

39. I repeat that it is of vital importance that our diagnosis of the causes of the present formidable financial disorder should be right. It is a difficult and responsible task to attempt such a diagnosis at all, and I hope that my statements and arguments, as now set forth, will be subjected to the most searching and rigorous criticisms.

40. If I am right in thinking that the divergence of the values of gold and silver, which is producing consequences so ruinous to India, is due to the general adoption in England and America of gold alone as the standard of value, and to the general exclusion of silver from this office, then it seems plain that the Government of India has no direct power to help itself. The sufferings of India are caused by the proceedings of the great nations of the West, and, unless they can be induced to reconsider their policy, India can only, helplessly, endure the consequences.

41. Is there the remotest possibility of such reconsideration? If there are no stronger grounds to urge than the sufferings of India and other Eastern countries, and the injustice done to them, then I fear that the case must be pronounced absolutely hopeless. If man individually is selfish, much more are nations selfish. The nations of Europe would, with equanimity, see India, or, for that matter, the whole of Asia or the world involved in the widest suffering—ruined, if only they themselves did not suffer from the catastrophe.

42. The only hope is, and there are some grounds for such hope, that the *interests* of Europe and America may induce or compel the Western nations to consider our case.

43. If my diagnosis of the present disorder is right, then it is not India and Asia only which are now suffering, or have grave suffering before them. The rise in the value of gold in Europe and America has already caused a signal

fall in prices there, a vast increase to the burdens of all debtors, a sore stagnation of trade, and widespread commercial and social distress; and there is room for the expectation that these evils are only begun. If France is driven to replace her 60 or 70 millions sterling of silver by gold—if other nations, even India for instance, are *forced*, in self-defence, to adopt a gold standard at all costs, then there must be a further serious increase in the value of gold—in other words, a further fall in prices, bringing ruin upon multitudes of the citizens of Europe and America. It is impossible to say how far this ruin will spread, and how disastrous the social and political consequences may be, before the bitter end is reached.

44. England must, moreover, suffer grievous losses of a special kind.

If Europe and America fold their arms and leave the forces now at work to produce their own natural results, then it is impossible to say how far the value of gold may rise, and how far that of silver may fall: I see no symptoms, as yet, of the end of either process. Now, let the Government of India, fighting for its own hand, make its utmost and most violent efforts to maintain solvency—there are limits to its power. At great risks, and with much distress and cruel loss to all concerned, considerable additions may perhaps be made to the revenues of British India, and considerable retrenchments may be effected from its expenditure; but such measures cannot be carried to an indefinite extent. Doubtless, the Government of India will make heroic exertions to discharge all its obligations, however inequitably their weight may be increased; but I cannot conceal from myself the fear that a point would, even soon, be reached when the Government of India could do no more, when—the word must be spoken—India would be *unable* to meet its obligations—would be *insolvent*.

45. In such case, the losses to Great Britain would be, indeed, grievous. India could not pay her debts to Great Britain, and the British trade with India would be seriously imperilled. Unless Great Britain takes timely measures to prevent the catastrophe, I confess that it appears to me to be imminent in the future.

46. I venture to suggest that it is the first duty of the Governor General in Council, with all the gravity and all the reserve that the occasion demands, yet with unmistakable plainness of speech, to represent to Her Majesty's Government the extremity which threatens British India, with all the consequences to the British Empire itself.

47. Further, it is to be remembered that, if Great Britain has vast interests bound up with the prosperity of India, she is only less interested in the solvency of other countries (Russia for instance), whose power of meeting their obligations will be in like manner undermined by the present currency cataclysm.

48. If Europe and America should see it to be their interest to adopt the remedy, it would, I believe, be both easy and equitable in its operation.

49. If the whole world were one nation, can there be any question what would now be done? The disorder is due entirely to an abrupt change in the values of the two standards of value—the value of one (gold) is risen greatly—the fall of that of the other (silver) is imminent. The remedy for the disorder is, plainly, to reduce the value of the gold standard, and to maintain or restore that of the silver standard. Simple justice to the whole world (and as already said, justice and expediency in such matters always go hand-in-hand) demands the restoration of the *status quo ante* the disturbance. Is such restoration *possible*? Can it be doubted that if the nations set themselves to

it, means could be found of solving the problem in some way equitable to all interests? Can it be right, will it really be possible, for each nation selfishly to take its own course, however ruinous the consequences to the rest? In truth, Germany and England have the matter very much in their own power: if these two nations should see it to be their interest to agree to admit silver to their currency upon such terms as is necessary to reduce the value of gold to what it was in 1873, France would gladly follow their example, and the other nations of Europe would and could make no objection. America, too, must and would agree.

50. Is it *mechanically* possible to right matters by the admission of silver to be legal tender at a certain relation to gold, say, as proposed by the bimetalists, $15\frac{1}{2}$ times its weight in gold? I believe it to be so, because the supply of silver is, though considerable, still limited, and, therefore, its value could not if it were thus restored to its old field of employment, fall much below this rate.

51. But, while I believe that the only certain, complete, or prompt remedy for the present disorder is an international agreement to restore silver to its place as a standard, and that, unless this is done, not Asia only but also Europe and America will undergo severe sufferings, I cannot but fear that I shall be thought almost mad even to have broached the idea; and, indeed, it does seem a forlorn hope to expect that Great Britain and Germany will see it to be to their interest to give up the sole gold standard upon which they set so high a value.

52. I turn, therefore, with a heavy heart, to consider what the Government of India can and should do if Europe and America hold on their own way, and India and Asia are left to extricate themselves as best they can.

53. It seems clear that the measures called for are of two different kinds. To whatever extent we are suffering, or may hereafter suffer, from a fall in the value of silver, the remedy is in our own hands, and is simple in character. We can, and must, re-adjust the value of our standard, either by increasing the weight, or changing the substance of our standard unit of value. But, in so far as our trouble is due to a rise in the value of gold, no such simple remedy is at the command of the Government, which cannot think of attempting, by any interference with the silver standard, to restore the financial equilibrium disturbed by a rise in the value of gold.

54. It concerns us, therefore, vitally to know what share each influence has in causing the disorder with which we have to deal,—how much of it is due to a fall in the value of silver, and how much to a rise in the value of gold.

The prices of silver, in gold since December, have been as follows:—

January	4th,	price per oz. troy in pence	.	.	.	.	.	56
"	27th,	"	"	.	.	.	.	55
February	12th,	"	"	.	.	.	.	54
March	1st,	"	"	.	.	.	.	52 $\frac{1}{2}$
"	8th,	"	"	.	.	.	.	53
May	23rd,	"	"	.	.	.	.	52
June	23rd,	"	"	.	.	.	.	51
"	26th,	"	"	.	.	.	.	50 $\frac{1}{2}$
"	30th,	"	"	.	.	.	.	50
July	5th,	"	"	.	.	.	.	48
"	10th,	"	"	.	.	.	.	47
"	11th,	"	"	.	.	.	.	46 $\frac{1}{2}$

The price was kept up, and the full effect of the forces at work restrained, for part of this time, because the Secretary of State sold no bills during

February and March, and bills for only 50 lakhs in April, 108 lakhs in May, and 118 lakhs in June.

55. Our prices current in London extend only to April, and, in Calcutta, only to the 26th June. They show no fall in the value of silver; and, so far as the facts known to us go, we must, as yet, attribute the whole disturbance of the equilibrium of gold and silver to a rise in the value of gold, and no part of it to a fall in the value of silver. So far, then, the Government of India cannot seek deliverance in any enhancement of the Indian standard of value. Whether the rapid fall in the price of silver (from $50\frac{1}{2}d.$ to $46\frac{3}{4}d.$) since the 26th June may not be found to have included a fall in the *value* of the metal, remains to be seen. Meanwhile, we must treat the whole disturbance to the 26th June as due only to a rise in the value of gold. How much of the subsequent aggravation is due to the same cause, we cannot yet say; but we may proceed with the discussion on the assumption that the fall to the point when Re. 1 = 1s. 7d., at any rate, is due to a rise of the value of gold.

56. The injury to our finances hitherto is thus, mainly, if not altogether, due to the enhanced value that we have to pay in gold in England. Our obligations there having been contracted on the understanding that gold was worth about $15\frac{1}{2}$ times its weight in silver, and gold having now risen to be worth about 20 times its weight in silver, the burden of our obligations is proportionately increased. Our creditors in England, who benefit by the change, have no equitable claim to the benefit; but, unless there is some such international rectification as I have suggested, the wrong appears to be, so far, without a remedy. We have no option but to pay the gold that we have contracted to pay.

57. Now, there is no royal road out of this difficulty; it must simply be faced: we must grapple with it and overcome it, or be overcome. The facts and calculations which I have already submitted show that in order to meet the new and grave obligations thus imposed upon it, the Government of India must, upon the assumption that the fall to 1s. 7d. only is due to a rise of the value of gold, be prepared, by increasing its receipts or reducing its expenditure, to provide, immediately, not less than two crores of rupees a year in excess of what it now has at its disposal; and, it may be, considerably more. We do not yet know the worst, and cannot say when we shall know it.

58. The problem, then, which the Government of India has to solve is *how* to effect an improvement in its financial position of two crores of rupees a year immediately, and of a further indefinite sum hereafter. The task is formidable enough to cause dismay. It will be requisite to give up all administrative luxuries and even some necessities. Schemes of retrenchment must be reconsidered which have been, in times past, taken up and rejected; and the whole energy and ability at the command of the State will be needed to effect the required curtailments. Resort must, moreover, I fear, be had even to new taxation. But a loyal and combined effort must be made: I see no way of escape from the painful exigency.

59. It would be premature for me to make any detailed suggestions of retrenchments or taxation until I learn whether the Government admits the necessity thrust upon it. Even then we must look to the Departments to suggest retrenchments. I only say, meanwhile, that retrenchments seem to

me to be, *under any circumstances, possible, only under the following heads :—*

	Net grant for 1876-77 (omitting 0000.)
	R
Land Revenue, omitting Settlements	1,881
Post Office	80
Telegraph	198
Administration	1,595
Minor Departments	287
Law and Justice	2,367
Marine	323
Ecclesiastical	162
Medical	184
Miscellaneous	78
	<hr/>
Total Imperial Civil	7,155
Provincial Allotments	5,060
Public Works Imperial	2,449
Army (effective portion)	13,334
	<hr/>
GRAND TOTAL	27,098
	<hr/> <hr/>

60. If only two crores of rupees is to be made up by retrenchments, this expenditure must on an average be reduced by 7-38 per cent. all round. Such retrenchment will fall much more severely on some heads than on others ; for it will be extremely difficult to make any considerable reductions under some heads, as, for instance, "*Law and Justice.*" Upon the whole, I gravely fear that serious extra taxation cannot be avoided.

61. As to organic remedial measures, we may, perhaps, be able, in presence of such an emergency, to induce Her Majesty's Government to consider again the propriety of assisting us with an imperial guarantee so as to reduce the rate of interest on all our sterling loans including the guaranteed railway capital. There are many substantial objections to such a guarantee ; but I fear that they must yield now. If I am right in thinking that our trouble is mainly, and immediately, due to an inequitable increase of the weight of our obligations in England, there would be a special claim to relief of this kind. Such assistance would be specially useful in enabling us to take over the Guaranteed Railways, at due date, in accordance with our contracts.

62. This last measure, and every other such measure that may in any way improve our financial position, must be anxiously pursued. And the policy of constructing remunerative works should continue to have full scope. Only, we must be more than ever careful that the works are always really remunerative, and we should not attempt to borrow money in gold again, but confine our reproductive expenditure to the amount that we can borrow in silver in India.

63. It will be right, too, to consider carefully whether we cannot, and should not, adopt a cheaper system of general administration. Mr. Barbour showed, the other day, that the strength of the Civil Service in Bombay is needlessly great. It behoves us to consider, both there and elsewhere, and in every branch of the administration, whether we cannot employ Native agency more largely, in substitution for the more expensive European agency.

64. But I abstain from further remarks in this direction now. If the Government of India accepts, on full deliberation, my conclusions, it will doubtless take early measures to ascertain and consider in detail the remedies that are possible.

65. I have spoken of the interests of our officers and of the English holders of our rupee loans, and of those Englishmen who have capital invested in India. According to my diagnosis of the causes of our trouble such persons, so long as silver does not fall in value, will not, *in theory*, suffer much; because, although they get less gold for their rupees, what they get is more valuable. But I am afraid that this will not be easily recognised, and that, moreover, it will be long before the practice accords with the theory. The fall in wholesale prices in England, which proves the rise in the value of gold, will not quickly extend to retail prices, especially to the retail prices of many necessaries required by our officers and their families in England. Moreover, many of the principal payments which such persons have to make, such as schooling, house-rent, wages, etc., are almost as stereotyped as are the interest payments of the Government. They will, therefore, suffer for a long time, at any rate, and strong pressure will be put upon the Government, and indeed felt by it, to do something for their relief. Already is there a demand made for the Government to pay all furlough allowances, and make all officers' family remittances at the rate of 2s. the rupee—a concession that will cost some 13 to 17 lakhs a year at least; and many other claims will arise. The loss entailed upon our European officers is, indeed, for the time at least, equivalent to a substantial reduction of salary which falls hardly upon all, even the highest, and which must throw those on low pay into difficulties.

66. It remains for me to refer again to the almost certain contingency of Government having speedily to re-adjust the standard of value. If silver itself falls in value, as seems inevitable, such re-adjustment will be absolutely necessary, and the Government must be prepared with measures for the purpose. Eventually, it will be for consideration whether the needful enhancement should be effected by the substitution of gold, or by adding to the weight of the silver rupee.

67. It would be greatly to be desired that it should, at last, be found possible to adopt a gold standard; but I am much inclined to fear that it may not be possible; that the gold in the possession of mankind would not be enough for us to take such a step without causing a still further enhancement of the value of gold to a most inconvenient extent, and that the cost would be more than India could bear. If India were to adopt a gold standard, not only would the measure, in itself, tend to enhance the value of gold, and reduce that of silver, but the rest of Asia would almost be forced to follow our example, greatly aggravating the consequences.

68. Whether we adopt a gold standard or increase the weight of silver in the rupee, we shall not be justified in enhancing the value of the rupee beyond what it was when the value began to fall; and the measure will involve fresh anxieties, responsibilities, and costs; for it will not be possible, in either case, to leave the old coins in circulation. By the law of final utility described in the subsidiary memoranda, the value of the whole currency would rise quickly, if not immediately, to the value of the new coin whatever we might make this value, and the risks from the operations of coiners, and of the new coin being always driven out by the old and less intrinsically valuable coin, would compel the Government, at its own charges, to withdraw the old coin. The cost of this measure would be very serious, and, if a gold standard were adopted, more, I fear, than we could undertake.

69. It is not likely that the Government of India will, for a long time, be in a position to decide how, or to what extent, it will re-adjust its standard of value.

70. It will be very undesirable to make such re-adjustment piece-meal, and it will be better, therefore, to delay attempting it until experience shows what is the new equilibrium of gold and silver. Meanwhile, the Government should meet any ascertained fall in the value of silver by a corresponding seignorage on silver coinage which can be increased or reduced from time to time, as circumstances may render advisable, until the desired equilibrium is attained.

71. The standard measure of value, during this intermediate period, would not be silver but silver plus the seignorage from time to time. Such an expedient should only be tolerated temporarily: as soon as the period of uncertainty is over, and the new equilibrium established, all seignorage should cease, and the value of the standard unit of value should be adjusted to the new equilibrium, either by an increase of the weight of silver in it (and we shall probably have to be content with this), or by the substitution of gold. The decision between these two alternatives can and should be deferred till the time comes for the Government to re-adjust the standard of value.

It does not seem necessary to enter more into detail upon this subject at present; but I am prepared to do so hereafter.

72. As throwing a faint gleam of light upon the gloomy prospect before the Government of India, let me refer, in conclusion, to the fact that the whole revenues of India in 1849-50 amounted to only 27½ crores of rupees, as compared with 50½ crores in 1874-75. Assuming, as we, perhaps, may do, that the value of silver fell in the 25 years by one-fourth, we may call the revenues of 1874-75, 40½ crores of rupees of the same value as the Rupees of 1849-50. There are, no doubt, many explanations to be given of the growth of the 13 crores of revenue in these 25 years. But we need not, perhaps, despair yet of the solvency of India, great as is the strain to which the country is now about to be subjected. We must either bring our expenditure within our revenue, however difficult the task; or confess our insolvency. The latter alternative the Government of India will doubtless not readily adopt. At all costs, it must attempt the gigantic task imposed upon it.

XXVI.

MEMORANDUM,* BY MR. R. B. CHAPMAN, OF SUBSIDIARY ARGUMENTS AND INVESTIGATIONS RELATING TO THE QUESTION OF THE EFFECT ON THE FINANCES OF INDIA OF THE CHANGE IN THE RELATIVE VALUE OF GOLD AND SILVER.

I.—VALUE.

The difficulty of defining value is admitted by all writers on political economy. We can grasp with ease and precision such ideas as length or breadth, or weight or material capacity, or heat or cold; because, although, in each of these cases, the conception is not of anything abstract or intrinsic but relative, we have in each case some tangible and material standard of comparison on which to found our ideas.

But, when we try to fix or define our idea of value, beauty, usefulness, and the like with precision, it seems to elude our grasp. In some sense, indeed, such conceptions would seem to be susceptible of an absolute meaning which is wanting in material things. No conception of abstract length, breadth, and the like is possible, as such ideas involve of necessity a reference to some standard. But an object is useful in the abstract of which any use may be made, and *raisonnable* in the abstract which is in any degree an object of desire of limited attainment.

It is when we come to compare the value of one object of desire with other objects of desire, that the want of any definite standard of comparison makes itself felt.

Political economy is concerned with *relative* values; and so much is the want of a standard of comparison felt in the science that some of its professors have proposed to abandon the use of the very word "value," and substitute such a term as "ratio of exchange." Others, again, have anxiously sought for some standard, such as corn, or the wages of unskilled human labour.

But all are now agreed that it is impossible that such a standard can exist. There can be no object which is, everywhere, and always equally desired by all men. On the contrary, the degree of desire felt for every object of desire, varies from time to time, and from place to place even in the same individual.

* The following is a list of the authorities whose works I have studied or re-studied before writing this paper:—

ADAM SMITH, RICARDO, SENIOR, McCULLOCH, J. S. MILLS, CAIRNES, FAWCETT, JEVONS (*Theory of Political Economy*), JEVONS (*Money*), CHEVALIER (*On the Probable Depreciation of gold, 1859*), (*Money, 1866*). BONAMY PRICE (*Banking and Currency*), CZERNUSCHI (*Bimetallic Standard, 1876*), SEYD (*a Fall in the Price of Silver (1876)*), BLAKE (*Precious Metals*), PHILLIPS (*Metallurgy*), Recent Articles in the *Journal des Economists* by BIENADIKES, DE PARIEU and VICTOR BONNET and in the "*Revue des deux Mondes*" by CHEVALIER. For much interesting information, see also the *Report of the Royal Commission on International Coinage, 1868*.

(a) I read this book after my notes were in type. To the extent to which my conclusions agree with those of Mr. SEYD, they are mainly the result of independent investigation.

All that can be said is that there is what may be called an ideal scale* of values in which every object of human desire occupies at any particular moment, for each individual, a particular place. The place of any object of desire in the scale will vary, at the same time and place, to different individuals, and at different times and places, even to the same individual. A large number of objects near the bottom of the scale would be out of the scale altogether to multitudes of men, not being, to them, objects of desire at all. Other objects, again, which, ordinarily, occupy no place in the scale, may, in special circumstances, occupy the very highest place, be desired with the utmost intensity; as, for example, water by a caravan belated in the desert, or by a ship-wrecked crew, and even air when its supply is limited as it was, *e. g.*, in the Black-Hole in Calcutta. Clearly, it is impossible to define with any kind of precision the place in the scale of any single object of desire, because it does not, perhaps, at any particular time and place, occupy precisely the same place to any two individuals, or, at different times or in different places, even to any one individual.

The first elementary conception, then, to be grasped clearly is that the value of nothing is absolutely fixed. The value of every object of human desire varies continually at different times, at different places, and to different men.

We shall find, presently, that this quality of variableness is really essential to the very idea of value.

II.—EXCHANGES.

It may appear, on reflection, that the truth just defined lies at the foundation of all human progress and human society; for it is this condition that makes exchanges possible, and, so, enables men to supply their ever multiplying and ever-varying wants.

The growth of human civilisation, which I suppose we must assume to be synonymous with the development of the human race, is accompanied by a constant expansion and multiplication of human wants or desires. If ever a man could supply all his own wants, it must have been when he was very little indeed removed from the condition of the anthropoid ape, from which, if we are to accept Mr. Darwin's theory, the human race last sprang. Perhaps, indeed, one of the first symptoms of the transition from monkey to man may have been the development of wants or desires which could only be supplied by the division of labour, and the concomitant discovery that desires could be mutually satisfied by the exchange of objects, which, in each case, the giver desired less than the receiver, and less than he did the object received in exchange.

It is a far cry to those days of primeval development (if there ever were such days); and man, as he now exists, at least in civilised communities, may be said to supply almost all his wants by the method of exchanging objects of desire in his power for other objects in other men's power, which he desires more, and they desire less, than the objects which he exchanges.

This practice, so indispensable to human progress and human comfort, is possible only because objects are desired with different intensity, at different times and places, and by different men. We need not stay to enquire into the causes of these differences. So long as any object occupies to two men

* Where in these memoranda, or the main note the "value" of any object is spoken of, its place in this ideal scale of values is meant.

exactly the same place in the scale of values, there can be no exchange between them; for the one will offer no inducement to the other to exchange; and if any object could be conceived which should occupy to all men, at all times and in all places, precisely the same position in the scale of values, such object could never be the subject of exchange at all; for, by the hypothesis, no one would offer or could receive any inducement to exchange it. *Such an object would therefore have no value.* The desire to acquire it would not induce any man to make the sacrifices necessary to induce another man to surrender it. The moment this ceased to be true and the general equilibrium was disturbed, the hypothesis also would cease to be true.

Thus we see, *secondly*, that, in order that men should be able to supply their wants by exchanging objects of desire, in order that human society, in short, should progress, or even exist, it is essential that objects should be desired with varying intensity, at different places and different times, and, by different men, at the same time and place; and that such variations are inherent in the very conception of value, which could not exist without them.

It would be easy to shew that it is impossible to conceive of the value of any object being unchangeable without, as a logical necessity, the further conception that the values of all other objects are also unchangeable. For the relative value of one of any two objects cannot change without a corresponding change in the relative value of the other; nor can the relative values of any two objects change without changing also the relative value of one or other of them to any third object whatever, and therefore affecting its relative value.

III.—A STANDARD OF VALUE.

But, although the very idea of an unalterable standard of value is thus shewn to be logically and mathematically absurd, it by no means follows that no such standard is to be found sufficiently accurate and definite for practical uses of the highest kind. Although the position of any object in our ideal scale of values cannot but vary continually even to each individual man, yet the variations upon the scale, of some objects, even to all mankind, are confined to much narrower limits than those of others; and it may well be that the average exchangeable ratio of some objects against all other objects may be found to oscillate, for long periods, between very narrow limits indeed.

IV.—WHAT CONSTITUTES VALUE.

And here it seems proper to enquire whether it is possible to ascertain the conditions which determine the place of any particular object in the scale of values.

That there may be an exchange of any objects between two individuals, *A* and *B*, the following conditions must be present, it being assumed that *A* and *B* are both perfectly instructed in their own interests :—

- (1) Each individual must desire the object which he is to receive, more than the object which he is to surrender.
- (2) Each individual must be satisfied that no one else is ready to give him in exchange for the object which he is to surrender, an object which he desires more than what he is to receive, or more of the object which he is to receive.

These conditions, probably, include all that is necessary in order that an exchange may be effected; though their application may appear more simple in some cases, when, for instance, both the objects are present on the spot, and more complex in others, when, for instance, one or both of the objects must be produced or brought from a distance, or both produced and brought from a distance. But the term "object" must be widely interpreted so as to include labour, the use of capital, of skill, of experience, and the like.

We must now go a step further, and enquire what causes any object to be *desired*. The answer seems to be that an object is desired by a man to supply some want or (if any addition to this definition is required) to gratify some sense. However necessary an object may be even to human life, as for instance air or water, it will not be an object of *desire*, if the want of it is, as, *e. g.*, is usually the case with air and water, freely and fully supplied, and therefore not felt. The want of most material things may be, in like manner, sooner, or later, satiated; and then the desire for them ceases. The nearer a man comes to the condition of satiation in respect to any object, the less he will desire more of it. And what is true of individuals is equally true of communities. Communities do not desire air and water any more than individuals, and communities may be, in time, satiated with many, perhaps most, other things.

As to this condition of satiation, there is obviously a great distinction between perishable and imperishable objects. In respect to a *perishable* object, the satiation may be early, and when it occurs, is complete. In respect to an imperishable object, which can be laid aside for future use, satiation is, perhaps, never absolute, and is approached, more or less gradually, according to the character of the object.

Again, human wants are of many kinds. If some wants are not supplied, existence itself is affected; others may be left unsupplied with even positive benefit to a man *suum si bonum nobis*. But it is probably true that, in civilised societies, an object of general desire is usually wanted, because it is *useful*.

The degree of desire for any object depends then (1) upon the character of the want to be supplied; (2) upon the extent to which the want has been already supplied. This is what has been described by one distinguished Economist* as the "final degree of utility." It is not the general usefulness of the whole of an object that regulates the degree of desire felt for it but that of the portion to be next immediately supplied, the *wanted remainder*.

Such appears to be the law of what Economists call "*the demand*."

Now let us turn to the other side. The wants of a civilised man are almost wholly supplied through the agency of other men; and in order to obtain the supply of his own wants, every man must supply the wants of others. This is the fundamental principle of the economy of society or political economy.

A man can supply the wants of others or his own wants—

- (1) by his own contemporaneous *labour*, whether bodily or mental, or both, including, in this term, the use of skill, experience, and all special capacities;
- (2) by the produce of his own previous labour or that of other men which he has acquired or inherited (*capital*);

* JEVONS, *Theory of Political Economy*.

- (3) from any exclusive right which he possesses in any part of the earth or its products, *e. g.*, fertile land, mines, forests, fisheries (*rent*).

Usually more than one of these elements are combined; for labour can seldom, if ever, be altogether dissociated from capital; and, often, all three elements are present.

In the economy of Nature, we are told, there is no waste; an end is attained by the best and most direct method possible. So, if we regard the matter scientifically, it is with the economy of society. Assuming, again (as for this purpose we must do), that every man is thoroughly instructed as to his own interests, no man will supply to others more than is just enough to procure the supply of his own wants, whatever they may be. When it is a question of supplying the fruits of labour already in possession or of exclusive rights, this law often operates quickly, directly, and simply. But when it is a question of labour, or labour combined with capital, its operation, though not less real, may be more complex and indirect, may lead a man, for instance, to abandon one form of labour, or one application of capital, for another.

In the long run, however, it may be assumed, as a general law, that a man will apply his labour, capital or exclusive possessions in the manner which will procure for him the greatest supply of his own wants. If one method of applying these things procures for a man a less supply of his own wants than another, that method will be given up, and this substituted; and conversely, if any particular application of labour, capital and exclusive possessions procures a larger supply of human wants than another, more and more men will, as they become qualified, adopt it, until its yield is brought into equilibrium with that of other occupations.

In theory, the tendency of this law would seem to be to produce a dead level of uniformity, and so to bring society into a state of paralysis—just as it has been thought that, ultimately, the operation of the laws of the material universe tends to bring all the material elements into equilibrium, which is *death*.

It seems probable, however, that if this catastrophe is, in either case, to come by the working of known and natural laws, it is too remote to merit practical consideration. So long as labour produces more than the supply of the daily wants of the human race, *i. e.*, so long as capital accumulates, it seems to be certain that human wants will multiply also; and so long as human wants multiply, the operations needful for their supply will cause infinite variations in the condition of the human race. The tendency of the law of economical supply is doubtless ever towards a dead level; but in practice, the varying skill, capacities and abilities of individual men will defeat this tendency, just as it is defeated in Nature. But as Nature's laws in all their efficacy underlie all the beautiful variety of our world and its apparent disorder, so it is with society. We may, we *must*, recognise the law, though we may be glad that its operation is restrained, and its extreme effects neutralised.

We are now in a position to define the conditions upon which depend the place which any object will occupy in the scale of values, *viz.*, *on the one side, the degree of intensity with which the object is desired, on the other, the facility with which it can be supplied*. However urgent the want of any object may be, it will take but a low place in the scale of values, if the supply

is abundant and easy ; and, even though the object be not much desired, it must, if the supply be scanty and difficult, take a high place in the scale of values.

It is seldom, if ever, possible to say which of the two causes—the urgency of the demand, or the scantiness or difficulty of the supply—contributes the more to determine the place of an object in the scale of values. All that we can say for certain is, that this place is the combined effect of the two ; and that, whenever it becomes important to ascertain the causes that affect the place of any object in the scale of values, both elements must be carefully scrutinised.

We do not forget that it has been alleged by high authority that the value of every object is ultimately dependent entirely upon the cost of production—a term admittedly inexact and unscientific, by which, apparently, is meant the amount of labour, capital and exclusive possessions required for supply. This is, so far, true, in theory, that, by the operation of the law which has been stated, no object will be permanently produced which involves the expenditure of more labour, capital, and exclusive possessions than the production of any other object in exchange for which objects of desire of the same value can be obtained ; and that every object will be ultimately produced with the expenditure of the least possible amount of labour, capital and exclusive possessions, in ordinary language, at the least possible *cost*. But, after all, it seems obvious that, even so, the degree of demand regulates the value of any object as much as does the cost of supply ; and, indeed, inasmuch as it seems quite clear that the demand must ordinarily precede the supply, and that the supply does not, as a general rule, precede the demand, it seems probable that the degree of demand has more to do with the value of an object than the cost of supply.

When, under the operation of the law just stated, it becomes a question whether the production of any object shall be continued or not, the question must be determined by the urgency of the demand. If the demand rises, the object will be produced ; if not, it will not be produced. Again, objects may be produced at the same cost, whether there is a demand or not ; but clearly, by the same law, no object will be produced unless there is a demand for it ; for, otherwise, whatever the cost of production, the object is without value.

Again, when we speak of the cost of production of an object, there is risk of our overlooking the influence upon its value of the stock of the object already produced and in existence, the capital, in short, stored in this form. It seems to be certain that, whatever may be the case with regard to labour and its contemporaneous fruits, the cost at which capital has been produced can have no share whatever in regulating its value at any subsequent time ; nor can the cost at which the exclusive possession of some part of the earth has been acquired, in any intelligible way, regulate the value of such possessions. And what are we to say about the cost of producing *labour* itself ? *Labour* is an object of undoubted value, so much so that, as already said, Economists have sought to erect it into the standard of value, but failed in doing so.

Skilled labour, at least, is produced at a very considerable cost ; and, perhaps, there is scarcely any labour wholly unskilled ; the undeveloped raw material of labour scarcely exists. But even such material is, I suppose, produced at some cost.

Yet how can it be said that the cost of producing labour, in any essential degree, regulates its value ? Does not its value, and therefore the value of all

its fruits, depend, at least as much upon the demand for it as on its supply, which may, perhaps, in some subtle sense, be ultimately regulated by the cost of producing it.

The truth seems to be that even of labour a portion is, virtually, hoarded or capitalised in the shape of acquired skill ready for use on demand, and that the doctrine that the value of an object depends upon the cost of production is only very partially and remotely true.

The production of most objects will, doubtless, sooner or later cease, if the labour, capital and exclusive possessions employed in their production can be more profitably employed otherwise; and will not be resumed until this condition changes; but even this principle is far from being universally applicable. The production of some objects is incidental to the production of others, and cannot be discontinued without loss in other ways: in such cases, the production may, perhaps, be said to cost nothing; and the rule must often be inapplicable to the production of *capital*, which is frequently only the secondary consequence of the employment of labour, capital, and exclusive possessions primarily for other purposes than the accumulation of capital.

At any rate, the fact, so far as it is a fact, has only an indirect bearing upon the value of the stock of an object already in existence. If the object is perishable, its value would not be affected by the discontinuance of its production, until the stock be consumed; and if the object is durable or imperishable, the decline of value which causes production to cease may go far beyond the degree necessary for this effect, and may last for an indefinite time.

Other things being equal, the greater the stock of any object, the longer the period that must elapse before the discontinuance of its production will produce any effect upon its value. If the discontinuance of its production is due to a cessation or diminution of demand, the object may, perhaps, never recover its place in the scale of values.

V.—MONEY.

Much confusion arises from the use of the word "money" in two senses—the primary and the secondary. It is impossible to have any clear or definite idea upon the subjects dealt with in this paper, until we first eliminate all confusion as to the sense in which we speak of money.

The primary meaning of the word *money* is a measure of value—an instrument of exchange—a mechanical device for facilitating the supply of the wants of men in exchange for objects with which they supply the wants of other men. It is with money in this its primary meaning that we are concerned in this investigation, and we shall presently revert to it; but it is necessary first to clear the field of all reference to the secondary meaning of the word.

As a measure of value, money *represents, is a token of,** value or wealth.

* I beg that I may not be supposed to have adopted the fallacy, often exposed, that money is *only* a token having no intrinsic value. I am quite aware that it derives its power from its own proper value; though this value, again, may be derived from the monopoly which money enjoys.

Hence it comes, in its secondary sense, to be synonymous with wealth itself. It may seem, at first sight, that the two senses are identical; but, in truth, the two ideas of wealth and a token representing wealth for purposes of exchange, are entirely different—so much so, that the man who has the most wealth or money in its secondary sense, often perhaps, usually, has little money in its primary sense. A man who is rich enough to employ the services of many others may, perhaps, seldom see money; and so it is with countries. Probably no country is richer than England, and no money-market is more abundantly supplied than that of London; yet of actual money in its primary sense England uses less than any other civilised country of the same size and importance, having learnt by long experience how to effect exchanges with a smaller quantity of the instrument than other countries: and even England has, probably, still much to learn in this matter. It seems likely that, in future, as *wealth* (*money* in its secondary sense) increases, less and less money in its primary sense will be required for the business of the world. We shall have to dwell further, hereafter, upon this phenomenon.

Meanwhile, it is necessary to understand clearly that what we have to do with here is not money in its secondary and unscientific sense of wealth or riches, but money in its primary and scientific sense of a measure of value and an instrument of exchange; and that when we hear of "money being scarce," "the money-market being well or ill supplied," and the like, the meaning is, very seldom indeed, that there is any scarcity or abundance of money, the instrument of exchange, and, almost always, that there is a scarcity or abundance of spare wealth, capital awaiting employment.

We now turn to investigate the attributes of money in its primary and scientific sense, *viz.*, as a measure of value and an instrument of exchange. We have seen that human wants are, for the most part, supplied through human agency; and that civilized society is founded upon a vast ramification of mutual exchanges of objects of desire, under which every man supplies his own wants by supplying the wants of others.

It is only in the very earliest stages of society, when men's wants are of the simplest kind, that this commerce can be effected directly. As human wants multiply and become complex, the difficulty of finding an individual who desires, or is ready to supply, any particular object must become gradually insuperable. Moreover, some men, doubtless, very soon begin to produce more than it is necessary for them to surrender in exchange for the objects required to supply their own contemporary wants,—in other words, to accumulate capital. Such men would exchange their surplus produce for such objects as would either yield them a fresh return (for example, cattle, seed-grain, the exclusive right to fertile land, the services of labourers), or for such objects as would, by reason of their being objects of general desire, be readily exchangeable, at need, for other objects at least equal in value to the surrendered objects.

At first, doubtless, surplus accumulations (capital) were exchanged for (invested in) objects, which combined both these qualifications, and accordingly, cattle are among the earliest objects which are known to have been used as money, the Latin name for which (*pecunia*) is derived from "*pecus*" cattle. But it was not till the idea was developed of exchanging for objects chosen for the one quality of being readily exchangeable, at need, for objects of at least equal value, objects the surrender of which was not necessary for the supply of immediate wants, that the germ of the scientific conception of money was introduced into the human mind. This first conception of money has

developed gradually into the money of modern times. The chief distinction between primeval money and more modern money being, that, in ancient days, it rested with each individual to choose the object which should serve to him as money, though doubtless, the common interest led very early indeed to the selection in each country of one such object by common consent. It was not till more modern times that the State, acting for the public weal or convenience, assumed the responsibility of declaring that some particular object should be the money of the community, and serve as the measure of value for the settlement of all claims not expressly defined in terms of some other object, in other words, should be legal tender in payment and on account.

It becomes necessary, here, to narrow the definition of money further than we have yet done. "Money," even in the technical sense of an instrument of exchange, includes, in ordinary parlance, on the one hand, authorized currency or bank notes; on the other, subsidiary coins devised for representing amounts of small value.

In what we have now to say, both these auxiliary kinds of money must be excluded from consideration. They only *represent* money, and derive their value from being exchangeable, more or less certainly and completely, for money; they are not themselves money in the strict sense in which we must use the term. Neither paper money, however convertible, nor coins subsidiary to the standard money of the country, however scientifically manufactured and regulated, can fulfil the primary function of money proper, *viz.*, to measure value; for they have no sufficient value of their own, and cannot stand alone. All that they can do is to *represent* money proper.

In virtue of its primary attribute as a measure of value, standard money fulfils two subsidiary functions of great importance,—*viz.*, it serves as an instrument of exchange, and for hoarding or storing value. Paper and subsidiary coin can, more or less imperfectly, fulfil either of these secondary functions of standard money, and are, in fact, mainly designed to fulfil the first of them, *viz.*, to represent standard money in its character as an instrument of exchange, but they cannot, in themselves, measure value.

We proceed to investigate more precisely the nature, functions and conditions of standard money.

We have seen that the value of no object is fixed, and that to speak of a fixed standard of value involves a contradiction in terms; but that there may be some objects whose place in the general scale of value oscillates within narrow limits in different places, to different men, and at different times.

To serve as a standard of value, however imperfectly, an object must have this characteristic.

It must also be durable; it could not, otherwise, possess the main characteristic; and it must be homogeneous, divisible, portable, and capable of receiving and retaining marks of identification.

The only objects, hitherto, supposed to combine all these qualities are gold and silver.

The value even of these substances has indeed varied considerably from time to time, and from place to place, relatively to some extent to each other, and much more to other objects; but hitherto such variations have been, generally, gradual, and the value of no other object is known to have varied less; no other known substance possesses, in an equal degree, all the other qualifications essential in a standard of value.

Accordingly, all civilised nations now use one or other, or both, of these metals as their standards of value.

In order to constitute a metal a legal standard of value, two conditions are absolutely necessary :—

1st.—Either provision must be made for its manufacture into coins under public supervision for all comers, or, at least, no obstacle must be interposed in the way of such manufacture. The imposition of any tax* whatever, and—if we are to speak with absolute precision—even the recovery of the actual cost of manufacture, interferes with the standard, giving to the coins or manufactured article a monopoly value in excess of their value as metal.

2ndly.—The State must declare duly manufactured coins of the metal to be legal tender in payment or on account of any claim whatever, expressed in money.

It is important to elucidate and establish the first condition, which may not be, at first sight, self-evident.

It depends upon two axioms :

- (1)—That in a sound system of currency, the whole value of legal tender coins required for the transactions of a country at any given moment, is self-regulating, and can neither be increased nor decreased by any arbitrary device.
- (2)—That a constant process of diminution, from wear and tear and other causes, is going on, so that, if a proper supply of legal tender coin is to be maintained, a corresponding process of recruitment must be constantly taking place.

This second truth appears so far self-evident that it need not be demonstrated. But the first axiom, the free recognition of which lies at the foundation of every sound system of currency, requires some remarks. It is true not only of the standard metallic money of a country, but of its auxiliaries in paper and subsidiary coin, each in its place.

We do not mean to say that the value of either the legal tender coin or of the auxiliary currencies necessary for the transactions of a country are *fixed quantities*. On the contrary, the value of the currency in use in any country varies continually, with, as we have already seen, a constant tendency to reduction, as experience and skill suggest new methods of effecting exchanges with the use of smaller amounts of currency.

What we do mean is that, on the one hand, no more money can circulate, at any moment than is actually needed for the transactions of the moment, and, on the other, if there be no artificial obstacle in the way of recruiting the currency, just that amount which is actually needed for the transactions of the moment will be constantly supplied, because, if accretion cease, the stock of money presently becomes insufficient for the transactions of the country, and so acquires an artificial value which continues till equilibrium is restored by the manufacture of more coin. Conversely, if, from the discovery of new methods of effecting exchanges, or an increase in the value of the substance of the coinage, or the diminution of transactions, or any other

* See, on this subject, the evidence given before the Royal Commission on International Coinage, 1868, and specially the opinions of Political Economists on Seignorage collected in Appendix XXII.

causes, the currency becomes redundant, it will yield a profit to melt up coin, and use it as metal until the equilibrium is restored.

Thus, if the regulation of the currency is left to the unfettered operation of the laws of supply and demand, the State confining itself to providing facilities for the manufacture of the currency under sufficient precautions for its being what it professes to be, the currency will expand and contract just as is necessary for the transactions of the moment; and this is, as already said, as true of the auxiliary parts of a currency as of its main body.

The State should undertake, then,—

- (1)—To manufacture into coin as much of the standard metal as is presented to it, the manufacture consisting only in its division into portions of a certain weight, and the impression upon each such portion of a certificate guaranteeing its weight and purity as it leaves the mint. The charge for this process ought not to exceed the cost thereof; and, in a perfect system, perhaps, even the cost ought to be borne by the whole community.
- (2)—Directly or indirectly, to provide freely, on demand, in exchange for standard coins, auxiliary currencies as follows:—

- (a) for use in transactions of larger amounts than can be conveniently effected by the standard coins; paper money representing convenient amounts exchangeable, on demand, for standard coin at the place of issue;
- (b) for use in smaller transactions than can conveniently be represented by the standard coin; subsidiary coins of some baser material, and therefore of larger size. This coin also should be exchangeable on demand, at convenient places, for standard coin.

These auxiliary currencies in no way interfere with the functions of the standard money, and are not standard money, but only represent standard money and so diminish the quantity of standard money necessary for the transactions of the community, besides facilitating transactions for which the standard money is mechanically an inconvenient instrument.

It has not, I think, been generally recognized* that a sound subsidiary currency made of base metal does not differ in character from a sound paper currency, the soundness in both cases depending upon the convertibility of the auxiliary currency, on demand, at proper centres, into standard money.

If the State interferes with the currency any further than has now been described, it can do nothing but mischief; and, if it do less than is here described, it does not do its full duty, and the currency is not thoroughly efficient. The intervention of the State at all for the supply of the currency is not absolutely necessary from a scientific point of view; but it is practically of the highest importance for the purpose of ensuring good faith in a matter in which good faith is of vital importance.

It will probably be admitted, now, that the moment the State interferes to prevent additions to the standard coinage, or places any obstacle in the way of such accretions, or imposes any tax or seignorage upon it, the metal of which it is composed ceases to be the standard of value in that State. If the conversion of another metal into legal tender money is at the same time

* See, however, Chevalier "On the Probable Depreciation of Gold," Sec. VII, Chap. V.

freely allowed, this metal at once becomes the standard of value. If the coinage of no metal at all into legal tender money is allowed, the State is without any tangible standard of value, properly so called, at all; and if this condition continues long, grave evils, inconvenience, and injustice must result.

The truth of what has now been said is not affected by another fact, often strangely overlooked, but which it is very important to remember, *viz.*, that money, especially standard money, is not used only for exchange transactions; it is very largely, perhaps on the whole more largely, used for a very different purpose, *viz.*, for hoarding or storing value. This use of money differs entirely in principle from its use as an instrument of exchange, and is, no doubt, subject to different laws, if indeed it is regulated by any fixed laws at all. The whole value of money in use as currency at any given moment is, as has been shown, limited to and regulated by, the work which it has to perform, and not susceptible of increase or decrease. But there is nothing to limit the amount that may be hoarded, which, if the currency is in a sound condition, seems to depend upon the relative habits of communities, and, largely, perhaps, upon the confidence, or the contrary, felt in the stability of their institutions and in the freedom secured to individuals.

No doubt, much money is continually passing from the one condition to the other, ceasing to circulate, and settling into hoards, or again being reproduced from hoards and taking its place as currency. No doubt, also, it is difficult to say, in regard to large amounts of money in a country, whether they are in the one category or the other; for instance, the metallic deposit in support of a properly regulated paper currency, or the cash balances of the State or of a bank. Such stores are essential to maintain circulation, and differ entirely in character from the hoards of a miser or of private individuals, who from one motive or another, bury heaps of gold or silver. But, on the other hand, they do not circulate. They are, however, governed by the laws which regulate the total value of the currency at any time, and may therefore be regarded as currency rather than hoards.

Hoarding is often in itself a wasteful practice; the man who hides his lord's talent, or his own, in the earth, and so makes no use of it, injures himself, though he may benefit the whole community. Indeed, very serious consequences would result to mankind in general if the practice of hoarding should cease. No country is absolutely free from this practice; though, in some countries, it prevails to a much larger extent than in others. Where it does prevail largely, it indicates primarily, as we have said, distrust of the stability or permanency of the political system in force, or of the justice secured for individuals. Often, however, it is the fruit of bygone times of oppression, the habit of hoarding, once formed, being difficult of eradication; and, on the whole, like other analogous practices, *e.g.*, the habit of storing grain, it is useful to the human race.

The striking differences between the total values of standard money used by different nations is probably, chiefly, due to the different degrees in which they hoard. No doubt something is to be attributed to the greater advancement of some nations than others in effecting transactions with as little of the instrument of exchange (currency) as possible. But the main difference is in the hoarding habits of different nations. The value of the currency of France is probably double that of the currency of Great Britain, mainly because the French people, for reasons which might easily be suggested, hoard much more than the British people.

And the East has always been called the sink of the precious metals, not because the transactions of eastern countries require an unlimited amount of currency, but because, for reasons which are obvious enough, the people hitherto have been great hoarders. The total value of the currency required for the transactions of any community, at any given moment, is automatically limited and regulated in the East as in the West; and, indeed, as transactions in Eastern countries are comparatively few and small, the total value of currency required to effect them is, almost certainly, *much less* in proportion, to population than in most Western countries. But the demands for hoarding are large.

We are concerned in this enquiry, primarily, with the hoards gathered in *standard coin or money*; but it is not to be forgotten that among Eastern nations large amounts of value are hoarded in jewels. It is not only, or mainly, because Eastern people are fond of adorning their persons that so many of them invest their savings in jewels of silver or gold for their wives and children or themselves, but because they think this method a convenient and safe way of hoarding value. Such jewels are, especially with the poorer classes, always held with the intention that they shall be converted into money at need; and this habit of Eastern nations should not be forgotten or overlooked when any currency question affecting them is under consideration. The conversion of coin into jewels, and jewels into coin, is constantly going on, more or less.

There is a law, known as the Gresham law, which affects, inevitably, all currencies—*viz.*, that bad money drives out good. The meaning of this is obvious; every man who parts with money parts with value, and will, in settling claims against him, part with that which does its work at the least cost to him. If a man can discharge a debt with bad money, he will not pay it with good money. From this law it follows, amongst other things, that when, in any country, the auxiliary paper money, which, as we have seen, ought in a sound currency to be exchangeable at the place of issue, on demand, for legal tender coin, ceases to be so exchangeable, becomes, in ordinary parlance, inconvertible, the legal tender coins disappear from circulation, cease to act, in that country, as instruments of exchange, and are either hoarded or exported as metal.

We have seen that to constitute any substance a standard of value, two conditions are necessary:—

- (1)—Provision must be made for its free admission to the currency without taxation and without obstacles of any kind.
- (2)—It must be authoritatively declared to be legal tender in payment or on account.

There is nothing to prevent these conditions applying to more than one substance at the same time. Accordingly there have been countries where they have applied to both gold and silver; where both gold and silver were simultaneously legal tender in payment or on account. This is what is called a double standard. But such a double standard never practically operates save for a very short time. However carefully and sagaciously the relative value of gold and silver may be fixed in such a system, their relation, by the fundamental conception of the very idea of value, must, as we have seen, vary. And, therefore, by the operation of the Gresham law, only one of them can be in circulation at one time. If a debtor has, as under such a system he has, the option of paying his creditor in one or other of two substances, he will of course pay in the less valuable of the two; and we therefore see under such a

system very quick transitions from one metal to the other or any change in the relative value of the two metals, making such transition advantageous to debtors. As an example, we may refer to the expulsion of silver by gold from France a few years ago.

A double standard never has any lengthened practical existence; the system means nothing more than an option to debtors to pay creditors in the cheaper of the two metals, as compared with their relative value fixed by the law—an option that appears, at first sight, if not unjust, at least inconvenient, as needlessly aggravating the uncertainty of contracts at a point where, above all things, the greatest possible certainty should be secured. The provision, however, thus made for the alternative use of either metal as a standard would have, if it were generally adopted, the great advantage, that it would effectually prevent any undue enhancement of the standard of value, which is most of all to be avoided.

The moment, in such a system, more onerous conditions are attached to the manufacture of coins from the one metal than to that of coins from the other metal, both remaining legal tender, though there may still remain two standards, that which is weighted ceases to be a simple metallic standard; and, if the manufacture of one metal into coin is restricted or forbidden altogether, the mere fact of coins of this metal already in existence continuing to be legal tender, cannot make it a standard. The metal which may not be coined ceases to be a standard, is, in fact, demonetised. The coins of such metal already in existence may continue in circulation, but their value will no longer depend upon that of the metal which they contain, but upon that of the other metal, the manufacture of which into coin is freely allowed. The coins of the demonetised metal will in fact pass as metallic notes representing value measured in the metal which alone has the privilege of replacing the constant decrement of the currency.

This important truth depends upon the converse of that general truth elaborated by Mr. Jevons in his "Theory of Political Economy," *viz.*, that the ratio of exchange (what is called in this paper the place in the scale of values) of any object depends upon what he calls its final utility, that is to say, the place in the scale of values of the portion last produced. Let a legal tender currency be composed of any number of substances, if no addition can be made to such currency save in one particular substance, it is the place in the scale of values of this one substance that will, eventually, determine the place in that scale of the whole currency, and all the various substances composing it will become but notes representing this one substance; for no addition can be otherwise made to the currency, and no addition will be made to it at all until its monopoly value rises to such a degree as to make such addition remunerative.

In this argument, it is assumed that fraudulent additions to the existing degraded currencies will be effectually prevented. The risk of such fraudulent additions, and the fact that, though representing value domestically, and at the time, such currencies are without permanent and cosmopolitan value, and therefore worthless either for storing or for exchange with other countries, are grave and sufficient reasons against any toleration of such a condition of the currency except as a temporary expedient, as they are against an inconvertible note currency, which even such authorities as Ricardo and J. S. Mill have thought theoretically defensible under certain restrictions, the chief of them being the absolute limitation of its amount by some automatically working rule.

Further, in a country where large quantities of standard coins of a particular metal, say, for example, silver, are hoarded, it is possible that it might be some time, especially if the balance of trade were adverse, before the mere prohibition of the manufacture of this metal into fresh coin would bring up the value of the existing coin to that of the other metal, the manufacture of which into coins was freely allowed, and from which alone therefore the currency could be permanently recruited.

We have seen—

- (1) that the laws and principles which regulate the hoarding of standard coins are entirely different from those which regulate the equilibrium of a currency ;
- (2) that, by the Gresham law, the cheaper of two legal tender currencies will take possession of the whole field, ousting the dearer.

Supposing therefore that in any country silver is the standard, and that a large quantity of silver standard money is hoarded, then, if, in view to the substitution of gold for silver as the standard of value, the coinage of silver standard money be prohibited, and that of gold only allowed, the first effect must be that all the hoarded silver coins will emerge from their hiding places and become current again, their place being taken by gold either coin or bullion. It is possible that so long as the wants of the currency are supplied from such hoards, the influence of the condition under which alone any deficiency could be supplied from without would not be fully felt.

But with this possible reservation it seems quite clear that, unless a metal can be freely manufactured into coin, it is not a standard of value at all ; and that the existing coin takes its place in the scale of values not with the metal of which it is made, but with that which alone can be freely manufactured into coin.*

We do not therefore hesitate to affirm that, however influential and experienced the authorities who speak of Germany and Holland as having now a double standard of value, and amongst others the *Economist* does so continually, they are, in this matter, certainly and altogether in error. From the moment that Germany and Holland, respectively, ceased to coin silver, silver ceased to be, in these countries, a standard of value ; and the coinage of gold alone being freely authorised, the standard of value in these countries became gold, and gold only. No doubt, they must, for reasons of great, though secondary, importance, withdraw their existing silver standard coinages ; but the introduction of the sole gold standard is an accomplished fact, and it was effected, instantaneously, by the law prohibiting the coinage of silver into standard coins and allowing only that of gold. To speak of Germany and Holland now as having double standards is a mere mischievous blunder, which it is astonishing to find admitted into the reasonings of great authorities.

The case of the Latin Convention is only slightly different. Since 1874, the countries forming this Convention (France, Italy, Belgium, Switzerland, and now Greece) have agreed, yearly to limit the amount of silver which may be manufactured into coins at the mints of each member of the Convention. Whatever amounts of standard coins are wanted in excess of these limits must be manufactured in gold only.

* Of course it is assumed that the conditions upon which recruitment of the coinage is allowed, are not so onerous that men will prefer to go without coin altogether. It is the conditions upon which new metal is not only *admissible* but actually in practice admitted, that determines the value of the whole existing coin.

It is clear that in its principle and ultimate effects, this somewhat extraordinary arrangement in no way differs from the more scientific and complete policy adopted in Germany and Holland of prohibiting the manufacture of silver into standard coins altogether. It is not necessary to repeat the arguments already used in respect to Germany and Holland, in order to prove beyond all doubt that, in the countries of the Latin Convention, as in Germany and Holland, gold is now the *sole* standard of value, and that the silver coins of the Convention are, in truth, nothing else but tokens or metallic notes representing gold.

A large profit attends the issue of every additional silver coin under this system, for it is accepted as equal to a far larger amount of gold than it is really worth.

Upon what principle the valuable privilege of issuing these silver notes has been shared* among the members of the Convention does not appear; it is not easy to imagine that any satisfactory principle can have been found, for undoubtedly, one member of the Convention may have in effect to pay in gold the nominal value of the silver notes issued by another member. In the scramble, Italy is, apparently, sure of the whole profit on all that she coins, and this at the expense of the other members; for Italy has an inconvertible paper currency, so that the silver which she issues will neither (no silver can) remain current in Italy, nor will it be hoarded. It must therefore simply pass into the currency of the other members of the Convention.

Nor is there anything to show that the profit arising from the issue of its share of these silver tokens by each member of the Convention is secured for the State and is not left to be given away to favoured individuals, or scrambled for or appropriated by National Banks. Belgium has indeed, at least lately, secured for the State the profit upon her share of the transaction, and France has done the same to some extent if not altogether. Switzerland did not coin her share in 1875,— a very proper course if she alone were concerned; but a doubtful piece of self-denial under the circumstances of the Convention, for the tokens by which the other members profit will circulate in Switzerland. Upon the whole it seems that, like most compromises, this policy of the Latin Convention is unscientific and injurious to the members of the Convention. It is, in fact, as much a debasement of the coinage as any of the practices of old days now so unanimously condemned.

It concerns us more to observe that it in no way alters the fact that, inasmuch as the manufacture of gold into standard coin is free, while that of silver is not free, the sole standard of value in the countries of the Latin Convention is *gold*; and that it is as much an error to speak of silver as a standard of value in these countries as in Germany or Holland. The silver coins circulating in those countries, though legal tender in payment or on account without limit of amount, are in truth only tokens or notes representing gold and deriving their value from gold.

VI.— OBJECT OF THE EMPLOYMENT OF MONEY.

Let us now investigate the effect upon transactions for the exchange of objects of desire of the institution of money and the authoritative appointment of a standard of value.

* It appears that before Greece was admitted, one-half of the limited amount to be coined was allotted to France, one-third to Italy, one-tenth to Belgium, and one-fifteenth to Switzerland. For 1876 that proportion is maintained for these States, and an apparently arbitrary amount is allotted to Greece over and above.

We must bear in mind throughout this enquiry that, although in order that money shall serve the purposes for which it was invented, of facilitating the exchange of objects of desire and storing value, it is essential that it should itself be valuable; yet the ultimate object of those who give or receive money, or undertake, at some future time or times, to give or receive money in exchange for objects of desire, is not at all to speculate upon the rise or fall in the value of the metal or other substances of which the money is made. On the contrary a principal intention with which the instrumentality of money is interposed is to eliminate, as far as possible, the element of uncertainty which attaches to the future value of objects of desire in general.

The substance which is to serve as money is chosen, primarily, because the place which it occupies in the scale of values is expected to oscillate over long periods, and throughout the whole world, within narrow limits. The narrower these limits, the more stable the value of any substance, the better fitted, so far, it is to serve as money. It is only through the instrumentality of such a medium that any rational and practical contract can be made for the continued exchange of objects of desire during long periods, or to take effect after long periods. Contracts of this character pervade all the relations of every civilised human society, and affect the interests of almost every member of such a society. They are based upon the expectations of all parties, that the value of the standard, in terms of which they are expressed, will not materially change; that when such a contract comes to be fulfilled, the money in which it is expressed will as nearly as possible represent the same value, be exchangeable for the same objects of desire, as it did when the contract was made.

This is the very essence of the use of money as an instrument of exchange. To whatever extent this condition is not realised, the essential and proper expectation of all parties to the contract is disappointed; and any avoidable action of human authority tending to prevent this condition being realised would be utterly wrong. In this reason chiefly lies the wickedness of any tampering with the value of the coinage now universally reprobated, but, for centuries, thought legitimate.

VII.—CHANGES IN THE VALUE OF STANDARD MONEY.

But is it right for a Government under any circumstances to interfere with the standard of value once fixed and prescribe another standard? If the definition of the object of money which has been just given is right, then it seems clear that the interests of the whole community would not only justify, but require, the interference of the State to prevent the consequences of any sudden and great change in the value of the national standard of value.

Men do not wish to speculate, and do not ordinarily speculate, upon changes of the value of their standard of value; and if there should arise any temptation to do so, it would show that the standard had lost the essential quality of steadfastness. There is, here, a broad distinction between the standard of value and all other objects of desire. When men contract for the exchange of any other object of desire, they take into consideration the probability of any change in its value. Moreover, any such change affects in this way the contracts of more or less numerous individuals only, not those of the whole community. It is scarcely conceivable that it could be right for the State, under any circumstances, to interfere to protect individuals from the consequences of a change in the value of any object of desire excepting the standard of value.

But the main reason for the existence of the standard measure of value is its presumed stability. Oscillations of its place in the scale of value, within narrow limits, doubtless occur continually; and the probability thereof is taken into consideration when contracts are made. But if such narrow limits are largely transgressed, then the intention of all parties to contracts are defeated, and the standard itself has ceased to be fit for its purpose.

Let us consider what would happen if there should be a sudden and considerable change in the value of the substance declared to be the standard of value in any country. First, suppose this substance suddenly and largely to rise in value; then there would follow these consequences:—

- (1) All debtors would pay, and all creditors would receive, more value than was intended by the contracts between them.
- (2) All hoarded money (capital held as money awaiting employment) would become more valuable.
- (3) Debts due by foreign countries with a different standard would be unjustly increased.

Even current transactions would not, for some time, escape the influence; eventually, indeed, fresh contracts of all kinds would be adjusted to the new value of the standard, and, provided the stability of such new value were once assured, it might, eventually, answer the purpose as well as the old value. But custom has a very strong influence upon most retail prices, and, unless a change in value of the standard is sudden and great, it may be a long time before the retail prices of many objects of desire respond to it. The prices of articles of universal consumption,—as, for instance, rice in Bengal, or wheat in Upper India, or bread in England—would, doubtless, adjust themselves quickly to the new value of the standard; but the retail prices of articles of luxury or of a limited consumption, and the wages of labour, would follow suit much more gradually. Meanwhile, the buyers of such things would suffer, and the sellers gain.

If, conversely, the standard of value lose value, the converse phenomena result,—debtors and buyers benefit; creditors, holders of capital ready for use, and sellers of many kinds are injured, and debts due by foreign countries with a different standard are unduly diminished.

In either case, the free exchange of objects of desire, and the supply of human wants, are impeded by the introduction of an element of uncertainty just where the nearest possible approach to certainty is indispensable, and the relations of society are seriously dislocated.

Upon the whole, a considerable change in the value of the standard of value, whether it rise or whether it fall, is an unmixed evil. If it is large enough, it may necessitate the re-adjustment of many of the most intricate relations of human society, and it must, certainly, greatly disturb them.

It has been frequently asserted of late, even by very high authority, that a fall in the value of the standard of value, in a country, must stimulate its exports to countries with another standard. The theory upon which this assertion is based is, that, as it will cost so much less to provide money in the country the value of whose standard of value is fallen, the export of its produce will be profitable. But it seems to be overlooked that the prices of produce in the country whose standard of value is fallen, will certainly adjust themselves, more or less quickly, to the lower value of the standard. The prices of articles of great consumption, the staple articles of export, for instance—indeed, all wholesale prices—follow, very closely, the value of the standard; so that, though the money of the country whose standard

of value is fallen will cost less of the money of the country whose standard is steady, yet it will buy less produce. So that nothing will be gained. So far, indeed, the effect produced is exactly the same as if the standard of value in the exporting country had remained steadfast, and that of the importing country had risen. In either case, some effect upon trade may be produced temporarily, until prices have adjusted themselves to the new values of the standards, but nothing more; and, as already said, wholesale prices follow values very closely.

The truth is that a mere change in the value of one or both of the standards of values of two interchanging countries will not, after a longer or shorter time, if confidence is felt in the stability of the new value or values, affect the result of the exchange of commodities between the two countries. It should always be remembered that a standard of value is only an instrument for facilitating exchanges of objects of desire. A change of standard cannot ultimately affect the real character of such exchanges, though the inconvenience of such a change may discourage them, and if confidence is not felt in the new standard or standards, such exchanges may become paralysed for want of certainty.

In all these remarks, a change of standard includes any unusual or considerable rise or fall in the value of the (unchanged) substance of the standard, as well as a change of the substance itself.

The truth is, we must repeat, that any sudden and considerable change in the value of the standard of value of a community is an unmitigated evil. It can add nothing to the wealth of the community in which it occurs except what it inequitably abstracts from other communities; and, though it may not directly take much from it, yet indirectly it is likely to impede that exchange of objects of desire with other countries which forms so large an element of prosperity in modern civilisation. Domestically, it causes the transfer of much wealth from one set of possessors to others who have no claim whatever to it, and disturbs all the relations of society.

For the sake, therefore, of the common wealth and of international justice, every community is bound to maintain its standard of value in a stable condition; to take precautions against any considerable change of its place in the scale of values; and, if the standard change its value suddenly and considerably, even to depose it and substitute a better standard.

It is not meant that any Government, however intelligent, would be right to meddle with the standard of value lightly or often. As has been seen, the place of no object in the scale of values can be absolutely fixed and unchangeable; the accepted condition of a standard is that its place in the scale of values will oscillate, but within narrow but vaguely defined limits. Such variations are no ground for the interference of the Government. Nor would it, probably, be wise, or necessary as a matter of justice, for the Government to interfere, even though the value of the standard should change considerably, if the change be gradual. There is every reason for thinking that, in fact, the values of both gold and silver have thus been gradually diminishing for a very long period, so that they, now, each occupy a much lower place in the scale of values than they did a hundred, or even twenty-five, years ago. To such a gradual change in the standard of value, the relations of society adjust themselves imperceptibly without any violent disturbance; and interference would have been unwise and unjustifiable, even though the phenomena had been understood, which they probably were not.

It is when the value of the standard of value suddenly changes, or when its change is ascertained to be imminent, that the intervention of the State is

necessary to prevent the dislocation of the relations of society, and of international relations, that must otherwise ensue.

Even then, the greatest caution is necessary lest it prove that the phenomena have been misunderstood; for loss, disrepute, and grave public inconvenience are the penalties of any mistakes. And, in the history of the past twenty-five years, we find ample evidence of the difficulty of interpreting such phenomena aright, and ample warning against hasty conclusions and premature action. Many, perhaps most, of the experts anticipated such a permanent fall in the value of gold as the result of the great discoveries of this metal in California (in 1848) and Australia (in 1851) that they prophesied disastrous economic disturbances, and were ready to counsel the abandonment of gold as a standard of value. One country (Holland) actually did depose gold and adopt silver as its standard as early as 1847, *i. e.*, even before the Californian discoveries, and Belgium followed suit in 1854.

The event has proved that the abandonment in Europe of gold for silver as the standard of value was not required for the reasons supposed; for though, doubtless, gold has fallen in value considerably since 1848,* silver was never more than $3\frac{1}{2}$ per cent. behind gold in the process, and it has not shared in the recovery of gold in value since 1872. One after another the United States of America, and all the more wealthy nations of Europe, have been led, contrary to all the foreboding advice of the Economists, to give up not gold, but silver, as a standard of value.

It has been shewn that the standard of the countries of the Latin Convention is now *gold* and not silver, and that this fact is not altered by the unscientific compromise under which only a limited amount of silver is coined. Silver coins in these countries in truth represent not their own real value but that of the gold standard. I confess that I find it difficult to follow M. Chevalier's argument, originated at the time when he was advocating the abandonment of gold by France, and still consistently advanced, that the silver franc is the unit of value in France. He may be right as to the intention of the law of 1803; but practically, under that law, silver and gold were, both, standards of value in France until the door was closed to the free manufacture of silver coin. Since then gold has been, and now is, the only standard in the countries of the Latin Convention.

The only European countries which still, nominally, use silver as their standard are Russia, Austria, and Spain; I say nominally, for, in all these countries, the actual currency is paper, which is not convertible, on demand, into the silver which it purports to represent. In such case, there is, in truth, no definite standard at all. The value of the paper depends conversely upon the quantity of it issued, though of course it cannot rise above the value of the nominal standard, if, at least, its coinage is freely allowed. Moreover in Russia, the coinage of silver is not free, but is reserved to the State, which only buys silver at its own price. Gold is the only standard of the United States, of Japan, and of Brazil. Thus, the prognostications of the Economists have all been neutralised by the fact that gold in falling in value carried silver with it, but, in receding, has left silver behind. No one seems to have foreseen this.

It does not follow, *necessarily*, that those who were ready to counsel the deposition of gold and the enthronement of silver as the standard of value of the wealthier European nations were wrong; for had their advice been followed,

* Gold first discovered in California, 19th January 1848.

it is certain that the effect would have been very favourable to the value of silver and very unfavourable to the value of gold; but there is no reason to suppose that any advantage would have followed upon the displacement of one metal by the other; and it must be admitted that, *cæteris paribus*, gold is a more convenient instrument of exchange than silver.

VIII.—VALUE OF THE PRECIOUS METALS.

Let us now examine what circumstances give to the precious metals that place in the scale of values which fits them for the functions of standards of value.

The conditions that fix the place of any other object in the scale of values fix also that of gold or silver. The value of gold or silver as of any other object, relatively to other objects, *i.e.*, its place in the scale of values, depends upon the degree or pressure of the demand for it upon the supply. Any cause that increases the demand for gold, for instance, or decreases the supply, will make it more valuable and raise it in the scale of values. Any cause which diminishes the demand for gold or increases its supply, will lower its place in the scale of values. It is the same with silver. Such causes, alone, ultimately determine the value of gold or silver or any other object.

It is to be observed, however, that the operation of such causes is not always direct and simple. If an object is perishable, they operate immediately in the most manifest way; as, for instance, if a great quantity of fish are captured at some place where it is impossible to cure them or to convey them to other places, the value will depend only and immediately upon the demand then and there existing for the supply then and there produced. But if an object is imperishable and easily moveable, the prospects of future demand as well as the present demand, the demand in other parts of the world as well as on the spot, and the existing supply already stored as well as the prospects of future supplies or of supplies elsewhere forthcoming, or in existence throughout the world, all combine to fix the value. The elements at work are the same in all cases; but their operation may be of any degree of complexity according to the nature of the object.

The nature of gold and silver is such that the elements operate with great complexity; nevertheless, no other thing ultimately fixes the values even of these substances.

We have seen further, that the demand for any object of desire must, usually at least, precede the supply, and that, in fact, it is the demand which probably plays the more important part in fixing the value of an object. If we wish, therefore, to know why an object occupies a particular place in the scale of values, it is, above all things, important to ascertain why there is a demand for it; in other words, for what uses, or to gratify what tastes, it is desired or wanted.

Now the uses of gold and silver are, *first*, to serve as instruments of exchange; *secondly*, for storing value; and, *thirdly*, for various domestic, artistic, and scientific purposes. The quantities required for the third purpose are very small, compared with the quantities produced, and the demand for this purpose alone would not raise the value of gold and silver high in the scale. As touching the question of the value of these metals, this third use of them may be neglected.

The effective demand for gold and silver is for the first and second purposes.

We have seen that there are natural limits to the demand for the first purpose; the quantity of gold and silver used as an instrument of exchange, at any particular moment, fixes itself automatically, and, though improved methods of effecting exchanges may reduce the value required, and a rise in the value of these metals must reduce, and a fall in the value must increase the weight required, the amount needed for this purpose is not open to any other influence.

It would not be possible to ascertain the weight of gold and silver needed for the first important purpose, especially as we have seen that it is difficult, and may sometimes be impossible, to say of particular hoards, whether they belong to the first use or the second use, whether they are "currency" or hoards. But, considerable as may be the weights of silver and gold required for actual use as instruments of exchange, they are probably not so large as might be supposed, and, however large they may be, they are strictly *limited*. Moreover, all the evidence goes to shew that very small quantities indeed of gold and silver are required to supply the wear and tear of a currency once in efficient order, so small that the effect of the demand for this purpose in contributing to give value to the precious metals or to sustain their value may be practically neglected.

So far as the first use of these metals gives rise to an effective demand, it must be for the purpose either of supplying metallic money to countries not yet fitted out with such an instrument of exchange, or of making up (by additions of bulk) for any loss of value of the metals. Any demand on the latter account must be largely counterbalanced by (1) the improved methods of exchange, the tendency of which is always in the direction of a reduction of the bulk of the metallic currency, and (2) the occasional converse process of the contraction of the weight of such a currency upon an increase of its value.

We have still to speak of the second use of the precious metals, *viz.*, for hoarding value. The weight and value of these metals that may be hoarded does not appear to be subject to any law, or limits; it depends upon principles so different from those which govern their use as instruments of exchange, that it is probably true, in a general way, that there is likely to be most hoarding in the country whose transactions are so undeveloped that it requires the least amount of the precious metals to serve as instruments of exchange.

Still, but for the first use of the precious metals the second use would probably have no existence. They are hoarded and stored, because it is believed that they can, at any time, be put into circulation again and exchanged for other objects of desire. If anything should happen to unfit these metals, or either of them, for the first purpose, they, or it, would be, *ipso facto*, disqualified for the second purpose also.

If it is difficult to form any idea of the weight of gold and silver serving as instruments of exchange, it is obviously impossible to estimate the weight hoarded or stored.

Moreover, very conflicting considerations present themselves to the mind which tries to forecast the future of hoarding. On the one hand, the influence of civilisation is adverse to hoarding, which is already reduced to insignificant proportions in countries where civilisation is advanced, political institutions are enlightened and secure, and the system of currency is sound. The amount of gold and silver hoarded in Great Britain is probably very small. Again, though there appear to be no natural limits to the amount of the precious metals that may be hoarded, there must be, somewhere, a point of

saturation for each country, and so for the whole world, and, with every addition made to the stock of precious metals in the world, there must be a nearer and ever nearer approach to this point of saturation.

On the other hand, the powers of the world to absorb the precious metals manifested during the last quarter of a century are large, and there are no urgent symptoms yet of their exhaustion. Immense amounts might apparently yet be absorbed, in this way, in detail, by the vast populations of India, China, and other Eastern countries.

During the 27 years ending with 1875, that is to say, since the discovery of gold in California, the value of gold and silver produced is estimated at from 867 to 958 millions sterling. The higher estimate is that reached by Mr. Hollingbery after elaborate investigation of the various sources of information. I do not think it too high; rather the contrary; and consider an estimate of 900 millions sterling certainly within the mark (a). Thus, speaking in round numbers, the weight of the precious metals in existence in 1848 is believed to have increased, in 27 years, by one-half. There is no reason to think that the metallic currencies of 1848 were generally so insufficient as to impede or embarrass trade.

There has, doubtless, been, since then, a great expansion of trade, owing to the development of human wants and the increase of the population of the world, amounting in some cases almost to the birth of new nations. Again, the rise of prices, or, in other words, the fall in the value of the precious metals, has, no doubt, necessitated the use of larger quantities of these substances as instruments of exchange. On the other hand, there have been, during these years, great improvements in the mechanism of exchange tending to economy in the use of the precious metals.

On the whole, it seems probable that deducting the portion of the 900 millions sterling employed in the arts, which cannot be estimated very highly, a large part of the remainder must really have finally settled down into the hoards previously existing.

That so large an accretion should not have reduced the value of the precious metals more than it has done is surprising, and shows the capacity of the world hitherto for absorbing them. But it is plain that there is no warrant for assuming that, say, 900 millions more could be absorbed in the next 27 years, without a more serious loss of the value of these substances, and consequent dislocation of all the relations of society. We cannot but be much nearer to saturation point in 1876 than we were in 1848.

(a) Estimates of production of gold and silver from 1849 to 1875, both years inclusive, 000's omitted—

	GOLD.	SILVER.	TOTAL.	GOLD‡	SILVER.§
	£	£	£	lbs.	lbs.
Sir H. Hay* . . .	600,435	266,190	866,625	12,850	88,730
Mr. Griffin† . . .	573,652	...	...	12,020	...
Mr. Hollingbery . .	643,000	315,000	958,000	13,473	105,000
In existence in 1848¶	600,000	1,200,000	1,800,000	12,572	390,000

*Appendix 3 to Evidence before Select Committee of the House of Commons on depreciation of silver, 1876.

†Appendix 6 to Evidence before Select Committee of the House of Commons on depreciation of silver, 1876. This does not profess to be complete estimate—*answer 462.*

‡Converted at £3-17-10½ the oz. troy.

§Converted at 60d. ditto.

¶Estimate by Newmarch—History of Prices, Vol. VI, page 142.

It appears, then, that the places of the precious metals in the scale of values depend almost entirely upon their use—

- (1) as instruments of exchange;
- (2) for hoarding value;

and that the second of these uses, though essentially dependent upon the first probably, on the whole, contributes more to their value than the first.

Doubtless if ever the use of gold and silver or of either of them as mechanical representatives of value should be abandoned, their many useful qualities would still ensure to them a respectable place in the scale of values; but, if this place might be expected to be well above that of the commoner metals, it would also, assuredly, be far below the place which, in virtue of their special use, gold and silver now occupy.

Hitherto we have spoken of gold and silver together. They share together the fields of employment which give them value, and, till 1848, it is probable that both together did not more than suffice for the efficient fulfilment of the purposes for which specially they are required.

The value of each of these substances relatively to the other adjusts itself upon the same principles which regulate their values relatively to all other objects. Each takes its place in the scale of values according to the comparative pressure of the demand for it upon the supply.

But so long as the two occupied jointly their main field of employment, their relations were very close; whatever affected the value of the one affected also, immediately, that of the other. Accordingly, till the year 1872, the relative positions of silver and gold in the scale of values varied very little over long periods. There was, indeed a gradual divergence which becomes manifest upon an examination of the facts at distant intervals of time. But subject to this steady but gradual separation, the two rose or fell together. The great discoveries of gold in California in 1848 and in Australia in 1851 reduced the value of silver as well as that of gold, and caused only a slight change in the relative value of the two metals. It is manifest, however, that the stability of the relation between these two substances was due, not to any mysterious bond between them, but to the fact that the pressure of the demand upon the supply of the one continued to bear the same relation to that of the demand upon the supply of the other.

If anything should occur to contract the field of employment of one of the metals and to expand that of the other, their relative value must so far change; and the forces contributing to such change would have cumulative power. Not only would the expulsion of the one metal involve a reduction of the demand for it and an increase of the demand for its competitor, thus acting with double strength, but it would also throw back upon the world's store of the expelled metal the stock heretofore used both as a medium of exchange and for hoarding or storing value, and thus increase the effective supply. The result might, of course, be counteracted by the discovery of some new field for the expelled metal, or by some corresponding reduction of original supply, just as it would be aggravated by a simultaneous increase of original supply.

There is this peculiarity about the position of one of two or more objects which minister to the same wants or desires, that as soon as the supply of all the objects together exceeds the demand arising out of the field for employment common to all, the well-known principle of the selection of the fittest is prone to cause the expulsion therefrom of the least fit object. Thus supposing that, till 1848, gold and silver sufficed for the due supply to the world of

instruments of exchange and hoarding, and that, since then, they have, together, gradually become excessive, the law of natural selection will, if men do not agree to prevent it, slowly at first, and then more and more quickly, operate to the substitution everywhere of the more fit for the less fit instrument, until, if the excess supply continue and is sufficient, the less fit is ousted altogether and the more fit monopolises the whole field.

There cannot be much question which of the two metals, gold and silver, is, *primâ facie* the fitter for the important purposes for which they are both employed. We have seen that for a substance to be a standard of value and medium of exchange, it must possess the following qualifications or attributes :

First and essentially stability and universality of value; and, then portability, durability, divisibility, homogeneity, fitness for coinage, etc., etc.

In every one of these characteristics gold is either equal, or more or less superior, to silver. In no one characteristic is silver superior to gold.

It would conduce greatly to the convenience of the human race if a single substance, such as gold, could be enthroned everywhere as the standard measure of value. The inconvenience of the standard of value differing in different nations, of there being no accepted common standard of value, is very great indeed. The consequence is, that there is an element of risk and uncertainty introduced into transactions between nations with different standards that may impede, and sometimes even paralyse, the exchange between them of objects of desire. This evil has not, hitherto, been seriously felt, because, till a century ago, silver was practically the only standard of value; and, since Great Britain* led the way in adopting gold as the standard of value, the relation between silver and gold has, till recently, been really stationary. But if the relation varies largely from time to time, the difficulties in the way of successful commerce between a country with a silver standard and a country with a gold standard are much aggravated. In such a case each transaction is broken up into two separate transactions—one referring to a silver standard, the other to a gold standard; the want of one common standard for the two halves of the transactions is highly embarrassing, and may end in gross injustice. In fact, nations so circumstanced have to effect their exchanges by a system scarcely more convenient than barter.

IX.—SUPPLY OF GOLD AND SILVER.

It is now time to consider a question which has a most important practical bearing upon the whole of this investigation, *viz.*, whether the existing supplies of gold and silver taken together are too much for the purposes of currency and hoarding throughout the world; and, further, whether, if silver were rejected, gold would suffice for these purposes.

It seems practically useless to consider whether silver alone would or would not suffice; for even if it should be found (as possibly it might be found) that silver would be more likely so to suffice than gold, it is, otherwise, so much less efficient for the purpose, and the mind of civilised nations is so made up for gold that it would be waste of time to discuss the claims of silver.

* Great Britain ceased to coin silver for all comers in 1799, from which date, accordingly, gold became the sole standard of value in Great Britain, such standard silver as existed passing only as tokens representing gold. But for a long time before that, silver had been so undervalued that gold had been the only standard of value. Gold was, practically, the only standard from 1717, when the proclamation fixing the value of the Guinea at 21s. was issued.

We have already quoted estimates of the stock and production of the precious metals, and must now quote them again. But before doing so, it is right to remark that such estimates are to be trusted only within very wide margins.

To ascertain the weight of gold and silver actually in the possession of the human race at any date, it would be necessary to know—

- (1) the weight of pure gold and silver won from the bowels of the whole earth since the creation ;
- (2) the weight of each metal dissipated by wear and tear or abrasion ;
- (3) the weight of each metal irrecoverably lost by shipwreck and other casualties, or in forgotten hoards ;
- (4) the weight used for domestic, artistic, and scientific purposes, in such way as to be irrecoverable.

We do know, within a margin of say 10 per cent., the weight of gold and silver produced in Europe (including Asiatic Russia) and America, Australia, and the European Colonies in Africa since 1848, and within a much wider margin the weight produced in the same countries since the discovery of America in 1492.

We also have some idea of the wear and tear of coins, though our knowledge on the subject amounts to little more than this, that such wear and tear is very slight; for the percentage varies according to (1) the size of the coins, (2) the amount of alloy, (3) the speed of circulation. Obviously the wear and tear of hoarded coins will be *nil*; and the more duty a coin has to do, the greater will be its wear.

Mr. Jevons calculates that a sovereign loses $\cdot 00035$ of its weight in a year.

Mr. Freer Herzog calculates the yearly loss—

Upon a 20-franc piece at	.	.	.	.	.	.	.	.	$\cdot 0002$
" 10 "	.	.	.	.	.	.	.	.	$\cdot 00043$
" 5 "	.	.	.	.	.	.	.	.	$\cdot 00062$

M. Bonnet says the yearly loss by wear and tear on gold coin is generally estimated at $\cdot 0001$. Mr. Jevons quotes experiments upon the British subsidiary silver coins made in 1833, shewing no less an annual loss than—

On half-crowns	.	.	.	.	.	.	.	.	$\cdot 00125$
shillings	.	.	.	.	.	.	.	.	$\cdot 00200$
six-pences	.	.	.	.	.	.	.	.	$\cdot 00375$

Jacob estimates the loss by abrasion and casualties on both gold and silver at $\cdot 00238$; Tooke at $\cdot 0025$.

These various estimates shew how very general and inaccurate is our knowledge even upon this subject.

We have very little knowledge of the production of the precious metals in ancient times or in Asia (outside of Russia) and the interior of Africa, even to the present time, or of the weight used for domestic, artistic, and scientific purposes, except that all the phenomena go to shew that it is inconsiderable; and we know nothing about losses by sea, forgotten hoards, and the like. Altogether, it is not very surprising to find Mr. Walter Bagehot (Editor of the *Economist*) telling the Select Committee (*Question 1391*) that he does not believe that such calculations are worth the paper they are written on, or that any one knows anything about them.

If an estimate approaching to accuracy is meant, I should very much agree with Mr. Bagehot: but I should not be disposed absolutely to reject the researches of so many authorities as giving a general idea of the stock of gold and silver won and possessed in the world at different times.

With these precautionary remarks, we may estimate the stock of the precious metals in 1848 as follows in millions sterling:—

<i>Gold.</i>	<i>Silver.</i>	<i>Total.</i>
600	1,200	1,800 ^(a)
and in millions lbs. Troy—		
12·572	390	

Since then there has been added in millions sterling—

<i>Gold.</i>	<i>Silver.</i>	<i>Total.</i>
600	300	900
or in millions lbs. Troy—		
12·572	97·5	

In other words, the stock of gold has doubled, and that of silver has been increased by one-fourth.

But this estimate of silver is made upon the now obsolete assumption that silver is still worth, as in 1848, 60*d.* an oz. Troy: taking it at 48*d.* an oz., the value of the whole stock would be less than 1,200 millions sterling, and there is no increase of value since 1848, but rather a decrease.

Thus, the total stock now may be roughly estimated in millions sterling at—

<i>Gold.</i>	<i>Silver.</i>	<i>Total.</i>
1,200	1,200	2,400
and in millions lbs. Troy—		
25	500	

At foot [of next page (*b*)] are estimates of the annual production of the precious metals at various dates.

I am inclined myself to consider Mr. Hollingbery's estimate of the production in 1875 not much too high. Mr. Giffen estimates the gold production of America in 1875 at only £6,853,000. The *New York Banker's Magazine* for April 1876 (p. 797) gives it at \$47,670,000 = to about £9,800,000. Probably £36,000,000 a year is a reasonable estimate of present production, *viz.*, about £22,000,000 gold and £14,000,000 silver.

(a) The upshot of Mr. Newmarch's elaborate estimate (*History of Prices, Vol. VI, p. 142*) is as follows:—

	<i>Gold, millions £</i>	<i>Silver.</i>
In Europe and America . . .	560	800
Exported to Asia . . .	52	378
TOTAL . . .	612	1,178

But these figures take no count of Asiatic produce, nor, on the other hand, of losses and wear in Asia. The estimate in the text is probably *low*.

This is nearly twice the production of 1847 even by Chevalier's probably exaggerated estimate, and more than seven times the average produce of 1809-29 as given by Jacob.

Thus, then, we may roughly assume that the stock of gold won and in human possession is now double what it was in 1848; and, further, that the present yearly addition to this stock is more than double the yearly addition of 1848. The stock of silver in 1848 was in value about double that of gold. Now it is probably less than equal to it.

If we go back to 1803, we shall find the stock as follows:—

In millions sterling—		
<i>Gold.</i>	<i>Silver.</i>	<i>Total.</i>
400	900	1,300
In millions lbs. Troy—		
8,382	292.5	
And the yearly produce,		
In millions sterling—		
2,634	7,733	10,367

The stock of silver and its production at that time bore a higher proportion to that of gold than it has since done; and there is good reason for thinking that, in earlier days, the proportion was higher still. Since 1848, the weight of gold produced has borne a much higher proportion to that of silver than ever before. Lately, there has been a strong reaction, and there seems much ground for expecting that large as is the production of gold compared with former times, that of silver will resume its old preponderance in weight; that it will ever again do so in value is not at present probable.

As already remarked, there is no reason to suppose that trade in 1847, was impeded by a deficient currency. Prices indicate no such condition of affairs. On the contrary, it may doubtless be assumed that of the 500 millions sterling added to the value of the precious metals won and in human possession between 1803 and 1848, a large portion was absorbed in the hoards of the world.

In Appendix V (HH H) will be found tables, which have been described in the principal note, prepared to illustrate prices. It is not easy always to reconcile, in detail, the course of prices exhibited in these tables in London and

(b) Estimates of production of the precious metals in thousands of £s.

	<i>Gold.</i>	<i>Silver.</i>	<i>Total.</i>
<i>Humbold</i> 1492-803	903	2,919	3,822
1803	2,634	7,733	10,367
<i>Jacob</i> * 1809-29	1,598	3,633	5,237
<i>Chevalier</i> * 1847	†10,110	8,720	18,830
<i>Average</i> * 1848-75	22,222	11,111	33,333
<i>Hay</i> * 1875	19,500	16,100	35,600
<i>Giffen</i> * „	20,353	16,100	36,500
<i>Hollingbery</i> „	25,000	18,000	43,000

* Evidence before the Committee chiefly by Mr. Giffen.

† Mr. Giffen gives apparently good reasons for thinking this too much.

Calcutta. But the following general conclusions can hardly, as it seems to me, be avoided:—

1. Since 1850 the prices of commodities have risen largely both in Calcutta and in London; in other words, the value of both *gold* and *silver* have fallen largely.
2. Till 1873 the value of *silver* fell less than that of *gold*.
3. Since March 1873, prices of commodities both in *gold* and *silver* have fallen considerably; in other words, both metals have recovered value, *gold* very much more largely than *silver*.
4. The recovery of value by *gold* is especially marked since the beginning of the year 1876.
5. But even *silver* has, as yet, risen rather than fallen in value since last December. That is to say, *silver* could be exchanged even now for more of most commodities than it would have procured in December last.

As bearing upon the later phenomena, the recovery of the value of *gold* and *silver*, we know the following facts—

First as to *gold*.

Germany, the Latin Convention, Holland and Scandinavia, have all, since 1871, adopted *gold* as their standard of value.

Germany has coined *gold* in millions sterling as follow:—

In 1872	21
„ 1873 to 11th November	28
to	
1875	8
to	
December 1875	7
In 1876	6
	70

France coined in—

1874	96
1875	932
<i>France</i> imported in 1874-75 net	35 millions.

The *gold* in the Bank of *France* has increased since 1872 by 27½ millions sterling.

The *Netherlands* have coined, under a law which came into operation on 1st July 1875, 4·625 millions sterling.

Denmark has imported, since 1871, 2·441 millions sterling and coined 1·473 millions sterling.

Russia has coined £11,896,000 during the same period.

About 8 millions sterling has been imported into *India*.

Some of these facts overlap each other. But, on the whole, it seems clear that there has been recently a demand for *gold* in excess of the annual production, and that circumstances have favoured a rise in the value of this metal.

As to *silver*, the known facts would generally lead to the expectation rather of a fall than of a rise in its value.

There has been widespread demonetisation of the metal in *Europe*; the production has increased; and there is a general expectation—we may almost say that there is a probability—of further increase. *India* and the *East*

was in existence in 1848. That is to say, the 2,400 millions sterling of 1876 would not now exchange for more commodities than the 1,800 millions sterling of 1848 would have done then.

(4) Thus the additions made since 1848 to the stock of the precious metals then in human possession have not only sufficed for the wants of the increased population and commerce of the world, but have caused a very considerable fall in the value of the precious metals, or, *vice versa*, a very considerable rise in the prices of commodities.

(5) It does not appear possible to say that any particular position in the scale of value is the best that a standard of value could possibly occupy, or indeed, that one position is better than another, that, for instance, the scale of prices of 1876 is more convenient and more equitable than that of 1848, or, *vice versa*. This much only may be said, that it cannot be convenient that the standard of value should occupy a *very high* place in the scale.

(6) What is indisputable is that any considerable or rapid change in the position of the standard in the scale of values is a serious evil; because it dislocates and disturbs all the economical relations of society. There cannot be a doubt that, in this way, the reduction of the value of gold and silver since 1848 has been an evil which has, in some instances, attained great dimensions. Also that any violent change in the existing value would be a great evil. I cannot follow M. Chevalier in his argument more than once recently put forward, that there is no reason to fear any evil consequences from a largely increased production of silver (or, I presume, by parity of reasoning, of gold). The usefulness of these substances largely depends upon their steadiness of value. Any great change in the rate of production, or any other circumstances tending to diminish this stability, would unfit them for their chief functions as standards of value.

(7) For the world to give up silver as a standard of value and use gold only as standard money, must immensely increase the value of gold, *i. e.*, of money (for gold would, by the hypothesis, be the only money); in other words, prices would, if such a measure were adopted, fall immensely; probably far below even the level of 1848. Such a violent disturbance of the value of money would dislocate all the economic relations of society, and would, even if it only restored the *status quo* of 1848, be a vast evil. The advocates of gold only for money hardly seem to have recognised this. They have partly shielded themselves under the assumption that silver may, though rejected as a standard in Europe, be yet retained in Asia. But the laws of value are as universal, as independent of climate, country, and race, as the laws of gravity. It is quite impossible that money which has lost value in Europe can retain it in Asia, and the rejection of silver in Europe must tend so to unfit it for the functions of a standard in Asia also that it cannot be assumed that it can or will be retained there.

(8) On the other hand if gold and silver were to continue to be both used as money, it seems certain that the value of both must continue to fall as it has fallen since 1848. The bi-metallists do not meet this difficulty. Doubtless, however, the evil of a falling standard of value is not so great as that of a rising standard. There seems, however, little hope, indeed, that the nations will adopt the bi-metallists' suggestion to admit silver to be legal tender as worth $\frac{2}{3}$ times an equal weight of gold. At the same time, I believe that there is nothing really unsound in the proposal, and that, indeed, it is the only remedy for the evil.

(9) Mr. Seyd seems to be right in thinking that the recent disturbance of the relative values of gold and silver is due mainly, if not only, to the demonetisation of silver in Europe.

It appears from the foregoing considerations that the present situation is a dilemma of the utmost difficulty. On the one hand, there appear to be very strong objections to the general rejection of silver and the exclusive adoption of gold for money. The result of such a substitution must be a violent disturbance of the value of money which would be greatly increased, and the prices of all commodities greatly decreased, so that there would be a serious dislocation of all the economic relations of society.

On the other hand, even if all the nations should agree, as the bi-metallists would have them do, to continue to use both gold and silver as heretofore, we should have to face the minor evil of a constant and progressive fall in the value of money.

Moreover, unfortunately, no such agreement is possible, for some of the principal nations have already taken their own course, rejecting silver and adopting gold only, and it seems hopeless to expect them to retrace their steps. The difficulty for the rest is thus indefinitely aggravated. For the money of the nations who have adopted gold is raised in value, while that of those who retain silver must apparently fall. The effect is an arbitrary and unjust increase of the value of debts due by nations in the second category to those in first category, and a decrease of the value of all debts due by nations in the first category to those in the second.

On the one hand, there is a severe pressure upon the remaining nations to follow the example of those who have already adopted gold, which pressure must become more and more irresistible as each fresh nation makes the change ; while, on the other hand, the consequences to all alike of the adoption universally of a sole gold standard must be most serious.

We shall show presently that the adoption of a gold standard does not, *of necessity*, involve the immediate or even early introduction of gold as an instrument of exchange. A *gold standard* can be substituted for silver, at once, by a simple refusal to coin any more silver as standard money, and a simultaneous undertaking to coin gold for all comers. Such a measure would be imperfect and dangerous, but it would be effectual ; and there is little doubt that it is the utmost that any silver standard country can hope for, under any circumstances, at present.

Upon this plan, the amount of gold required for the countries which have still to adopt gold, and, so, the rise in the value of gold consequent upon their adoption of it, would be reduced to a minimum ; but still, it is impossible to suppose that a very serious rise in the value of gold could be avoided ; for, after all devices of this kind are exhausted, it is inconceivable that the 1,200 millions of gold now in existence can do all the work of the 1,800 millions of gold and silver of 1848 without a vast fall in prices, *i.e.*, rise in the value of gold ; the currency might wait ; but the hoarders would not wait. There would be a general impulse to substitute gold for the silver now hoarded, a tendency which is probably already operating widely and may be one considerable cause of the recent increase of the value of gold.

The answers to our two questions seem to be—

(1) The 1,200 millions sterling of gold in existence with the current production might alone do duty as the money of the world ; but not without an indefinite increase in its value, in other words, an indefinite fall in prices, and consequent disturbance of all the economic relations of society.

(2) The 2,400 millions sterling of gold and silver together, with the current production, would be too much for the purpose, in the sense that their

joint use would involve a constant, though gradual, fall in the value of money, in other words a constant rise in prices.

(3) If more of the nations, acting independently, reject silver and use gold only, it seems that gold must inevitably rise in value, and silver fall in value; so much so that the continued use of silver as money by any nation at all may be most difficult, perhaps impossible.

(4) But any agreement among the nations of the world upon such a subject, however desirable, is hardly possible.

X.—FUTURE VALUES OF GOLD AND SILVER.

It is of the first importance for the objects of this enquiry to make some forecast of the future values of gold and silver relatively, as well to each other, as to other commodities.

We have seen (1) that the value of these substances depends chiefly upon their use as standard money; (2) that, subject to a very gradual divergence and to some fluctuations, the relative value of the two metals remained, till about 1873, very steady; (3) that since 1873 there has been a serious, and, latterly, a very rapid, divergence; (4) that, as yet this divergence is caused by rise in the value of gold and not by a fall in the value of silver; (5) that this rise in the value of gold is due to the substitution of gold for silver, as the standard of value by Germany, the Latin Convention, Scandinavia and Holland; (6) that the value of the gold stock of the world has risen from 600 millions sterling in 1848 to 1,200 millions sterling in 1876, and that of the silver stock has remained at 1,200 millions sterling.

The following considerations make it probable that gold will continue to rise:—

(1) Since 1848 there has been a large growth of the population and commerce of the world.

(2) There has also been a large accession to the population using a gold standard exclusively.

(3) The pressure upon the other nations of the world to adopt a gold instead of a silver standard is very great.

(4) The amount produced, though large, is not increasing.

The probabilities seem to be all in favour for the present of an increasing demand for gold.

On the other hand, there is the probability of more and more economy in the use of money for exchange purposes, and less and less resort to hoarding, which, though useful to the community, is for individuals often a barbarous and unintelligent practice. Moreover, the yearly supply far exceeds the amount of abrasion and loss, and also, probably, far outstrips the growth of population; *in time* it must affect the value of the stock. The prospect, therefore, seems to be that the value of gold will, for some time, perhaps, be fully maintained, and may even largely increase (perhaps we should say, with reference to 1848, *recover*), and that thereafter, it will very gradually decrease. This is on the assumption that the present rate of production will be kept up. Any largely increased or decreased rate of production would modify the course of events.

The following considerations make it probable that the value of silver must fall:—

(1) Silver has been already dethroned from its position of standard of value throughout a large part of Europe and America.

(2) There are strong reasons for the expectation that the process will continue.

(3) The rate of production is increasing and is likely to increase.

There seems very little doubt that, though the value of silver is not yet fallen, yet fall it must and will.

XI.—METHOD OF CHANGING THE STANDARD OF VALUE.

We have already considered the circumstances under which it would be right for the State to interfere in order to change the value of the standard of value, *viz.*, if there were any sudden and considerable change in such value, or if there was an imminent prospect of such a change.

To change a silver standard for gold nothing more is necessary than (1) to stop the coinage of silver, and (2) to undertake to coin gold for all comers.

Upon this being done, the silver coin previously existing would pass not for its own proper value as silver, but as representing gold—as notes for gold—and, if absolute security could be obtained against any illicit additions thereto, there would, but for one reason, be no urgent occasion for any further measures. It is the risk of loss to the community from the operations of coiners that would make such a condition of things inadmissible as a permanent arrangement; though, with vigilant precautions, this risk might be borne for a long period. In any case, however, a currency of this kind would have the grave disadvantage of being worthless, or comparatively worthless, outside the country in which it circulates, or for hoarding, and, by the operation of the Gresham law, it would bar out the real standard coin.

The particular value to be given to the new unit, in case of a change of standard, is not of primary importance as regards *future* contracts or economical relations; but, as regards the innumerable existing and past contracts, express and implied, it is of the very first importance that its value should be fixed justly.

All contracts in money are expressed in the unit of value. If the unit of value is increased, it means an addition to the burdens of all debtors; if it is diminished, it means a reduction of the rights of all creditors.

It is a most serious responsibility for the State to take to interfere at all with the standard unit of value; and to take any measures involving a change of its value is justifiable only in a great emergency.

In modern times, changes of standard have usually come about automatically, the Government not being called upon to undertake the responsibility of fixing the rate at which the change should be made. Thus, in France, the law of the so-called double standard eventually produced a gold standard with no violent transition. Under this law, 1 part gold was declared equal to 15½ parts silver, and it was left optional with debtors to pay, at this rate, in either metal. We have seen that, under such a system, only one metal is really the standard at one time, and this is the cheaper one. So long as gold was really worth more than 15½ times its weight in silver, of course, every debtor, under the option given him by law, elected to pay in silver and silver was the standard. The moment gold became worth less than 15½ times its weight in silver, the converse result followed and gold became the standard. Gold was substituted for silver in France with wonderful quickness, and then, as the pendulum began to swing back, and gold became more valuable than 15½ times its weight of silver, France prevented the otherwise certain reaction by shutting the door to silver, withdrawing, in effect, from debtors the option of paying their debts in silver at the rate of 1 part gold = 15½ silver.

No sudden disturbance of the economical relations of society accompanied the transition from silver to gold, and the Government was saved the anxious task of saying at what rate the transition should take effect; but it is certain that the change effected was in truth a very great advantage to creditors, and a very great disadvantage to debtors.

However this may be, let us observe:

(1) The intention of the French law of 1803 was not at all to introduce a gold standard but to establish an alternative* standard.

(2) That looking at the history of the relations of gold and silver in the past, which shows a constant but very gradual divergence of the values of the two, it was highly improbable, beforehand, that the law of 1803 would have ended in the expulsion of silver money from France by gold. No one, in fact, could have foreseen the vast gold discoveries of California and Australia which led to this expulsion, and gave to France its gold standard.

(3) That still less would it be possible to construct now a law after the example of the French law of 1803, which could be expected to cause the expulsion from any country of silver money by gold.

If, therefore, the Government of any country now determines to change a silver standard for one of gold, it must accept the responsibility of deciding at what rate the change shall be effected, *i.e.*, what shall be the exact weight of pure gold in the standard unit of value which shall be substituted for the old standard unit of silver. The United States, Germany, Scandinavia, Holland have each in turn had to do this. The rates fixed by each country were as follows:—

		1 Gold =
United States	(1853)	16 Silver
Germany	(1871)	15½ "
Holland	(1875)	16⅞ "
Scandinavia	(1875)	15⅞ "

Of these rates, the only one that, at the moment of transition, fairly represented the relative value of the two metals was that adopted by Germany, and this immediately ceased to do so. The new law in Germany has benefited creditors and injured debtors enormously. The rate adopted by America over-valued gold at the time, causing thus an injury to all creditors and a gain to all debtors. The rates adopted by Holland and Scandinavia, like that of Germany, erred the other way.

It seems clear that, *primâ facie*, the rate to be taken should, ordinarily, be the rate in existence at the moment of transition as likely to be permanently modified by the transition itself, and that a departure from such rate is justifiable only if there have been some sudden and violent change of the value of the old standard; in such case, it might be right to go back a little to some recent and more equitable value.

The same principle would apply if, instead of the *substance*, the *weight* only of the unit of value were changed. So much only must be added to the weight as will *maintain* but not *enhance* the value of the unit.

XII.—BALANCE OF TRADE.

In Appendix V (H H H) will be found some statistics illustrative of the balance of the foreign trade of India during the ten years ending with 1875-76.

* Chevalier considers that the effect of the law was to introduce a *silver* standard; and he is doubtless right in theory; but, in practice, the standard introduced was an *alternative* or *composite* one.

The accounts of India with foreign countries during the ten years may be exhibited in the following equation compiled from these statistics:—

India, and inland Asia trading through India, in account current with the world, 1866-76 in crores of rupees.

Dr.	Cr.
Net disbursements from the Home Treasury of the Government of India (except debt incurred and repaid) £110,000,000 @ 1s. 10 ^s . 65d. = Re. 1) 117	Excess of exports over imports 199*
Treasure received (Net) 78	Net debt incurred by the Government of India in England, including Guaranteed Railway Capital 55
Balance;—being net amount due in settlement of private transactions 59	
254	254

This account shows that, but for the amount borrowed abroad, the net balance of the account to be remitted to India in the form of treasure during these ten years would have been only 2½ crores a year. Including the amount borrowed in India, a considerable part of which probably came from England, the net treasure imported (78 crores) exceeded the net amount borrowed (65 crores) by only 13 crores.

Now (1) the Government of India has determined, so far as in it lies, for the present to incur no more sterling debt; (2) the cost in rupees of the disbursements from the Home Treasury will now be greatly increased, and cannot at present be estimated at better than Re. 1 = 1s. 8d.; and (3) we must expect less of our rupee debt to be in future held by foreigners.

The yearly account may now be expected to stand as follows:—

India, and inland Asia trading through India, in account with the world, in crores of rupees.

Dr.	Cr.
Net disbursements from the Home Treasury £15,000,000 @ 1s. 8d. = Re. 1) 18	Excess of exports over imports 20
Net settlement of, private transactions 6	Balance against India 4*
24	24

Not only, therefore, will India not be in a position to claim any treasure, but the account may be expected to be against her by four crores of rupees a year. This adverse balance may be reduced by a diminution of the

* It is probable that this amount, and, consequently the balance, is exaggerated. There is, indeed, little security for the accuracy of the values of either imports or exports returned to Custom Houses, whether in India or elsewhere. But imports are believed to be more closely valued than exports.

six crores in settlement of private transactions ; but it will be increased if our rupee securities are transferred to inhabitants of India. Whatever the actual balance may be, it can be liquidated only by an increase of the excess of exports over imports, which increase must be got either by increasing exports, including the precious metals, or decreasing imports, or partly by one process and partly by the other. The prospect is not cheerful.

Unless the Secretary of State borrows again, there is, clearly, at present no room for treasure to come to India in settlement of the accounts of India with the world. If silver is wanted for the recruitment of the coinage, or if silver or gold are required for hoarding or for ornaments, then they must be paid for by a still further increase of the excess of the exports over the imports of other commodities.

But India is well supplied with the precious metals, and might probably indeed disgorge some without great suffering.

The net imports in the twenty-six years from May 1850 to April 1876 were as follows :—

	Crores of Rs.
Gold	94.60
Silver	176.08
	<hr/>
TOTAL .	270.68
	<hr/> <hr/>

The net coinage of silver during the same period was 163 crores. Making all possible allowances for the amount of coin exported to inland Asia, lost and melted, I cannot doubt that India is, at least, amply supplied with coin.

I offer no remarks upon the character of our trade, except to say that I am afraid that not much comfort would be found in examining the prospects of our two chief exports—*viz.*, opium and cotton.

* It is assumed, in this equation, that the fall in the gold price of a rupee to 1*s.* 8*d.* is wholly due to the appreciation of gold ; to whatever extent it is due to the depreciation of silver, the excess value of exports would be increased and the balance against India decreased without any increase of the *quantity* of the net exports.

XXVII.

MINUTE BY THE HONOURABLE SIR WILLIAM MUIR, DATED 6TH SEPTEMBER 1876.

The argument from the existence of native currencies has, by desire of His Excellency the Governor General, been omitted from this Resolution.* It appears to me of some importance as bearing materially on the suggestions of the Chamber of Commerce. I propose therefore to notice it in the present paper for the information of my colleagues, and for eventual record with the Resolution.

2. It would, in my opinion, have been advisable to remind the Chamber that the British Government is far from having the entire command of the currency over the whole of India. There are no fewer than sixty mints

	<i>* Native mints having ultimatum right of coinage.</i>		belonging to
Hyderabad.	Chotta Oodepore.	Marwar (5 mints).	Native States
Cochin.	Leonawara.	Jeysulmere.	within and ad-
Poondocotta.	Soonth.	Bikaneer.	joining our terri-
Mysore. (P)	Badhunpore.	Kerowlee.	tories,* which
Puttiala.	Cambay.	Jeypore.	are either now
Nabha.	Indore.	Ulwur.	at work, or
Jheend.	Bhopal.	Kishengurh.	would be set in
Muleyr Kotla.	Rutlam.	Dholepore.	to active opera-
Cashmere.	Jowra.	Tonk.	tion if sufficient
Kutch.	Syllana.	Kotah.	inducement were
Baroda.	Gwalior (6 mints).	Jhallawar (2 mints).	offered. The cur-
Joonaghur.	Meywar (5 mints).	Bhurtpore.	rencies of these
Nowanugger.	Pertabghur.	Boondie.	mints are of
Forebunder	Banswara.	Mandalay.	course received
Barrea.	Doondgurpore.	Nepal.	

in all transactions in their respective territories; and, even in some parts of our own territories, contracts are very generally expressed in these currencies, and they circulate by preference, in partial displacement of the British rupee.

3. Again, a large portion of the staples of our inland and export trade is purchased in independent territory, and the British rupee at present is freely used in such purchases. Now it is plain that if an artificial value were given (as is desired by the Chamber of Commerce) to our rupee, and it became by any such means scarce, over-valued, or unpopular, it would be displaced in all transactions in native territory by the native currencies, which might even (though not of course legal-tender) come still farther into popular use in our own districts. Such a measure would certainly stimulate coinage in the native mints, and bring their money into more active competition with our own. And thus, instead of securing the full effect anticipated by the Chamber in raising the value of our rupee, it might to a very large extent only benefit Native States by placing a premium on their currencies.

4. Our answer to the proposal of the Chamber for stopping the coinage of silver is, I consider, quite complete in itself. Still I think it would have been proper to have added this consideration also. Indeed it appears to me to be a leading consideration which should be borne in mind in any kind of proposal affecting the standard of value, that we have to deal not only with

* See page 253.

our own districts, but indirectly also with vast tracts, and with great populations of varying habits and prejudices, over which in monetary matters we have no legal control, but which are closely associated with us by the use of our currency, and we to some extent with them by the use of theirs. The introduction of an unpopular coinage might thus produce competition and results, the effect of which it is impossible to foresee.

XXVIII.

RESOLUTION BY THE GOVERNMENT OF INDIA IN THE FINANCE AND COMMERCE DEPARTMENT,—No. 3044, DATED SIMLA, THE 22ND SEPTEMBER 1876.

Read again—

Resolution No. 1967, dated 31st July 1876.

Read—

A letter, dated 17th July 1876, from the Secretary to the Bengal Chamber of Commerce, transmitting, for the consideration of His Excellency the Governor General in Council, the following two Resolutions adopted at a Special General Meeting of the Chamber held on Saturday, the 15th July :—

RESOLUTIONS.

- 1st.*—“That the continued depreciation in the value of silver is a question most seriously affecting the political and financial interests of the country; and that, in view of its very great importance, the Committee be requested to address the Government, in order to obtain such information as they may be able to give, in regard to the policy which they propose to pursue under the circumstances.
- 2nd.*—That the Chamber approves of the suggestion of the Committee, that it is expedient, in view of any ultimate measures that the Government may adopt, that Clause 19 of Act XXIII of 1870, making it obligatory on the Mints in India to receive all silver tendered for coinage, and also Section 11, Clause (b) of the Act III of 1871, making it obligatory on the Currency Department to issue notes against silver bullion sent in, be temporarily suspended, at the discretion of Government; and that, during such suspension or till further notice, it be not lawful to import coined rupees from any foreign port.”

Read—

A further letter from the Secretary to the said Chamber, dated 22nd July, forwarding copy of the proceedings of the Chamber at the Special General Meeting aforesaid.

In this letter, the Committee of the Chamber, while recognising the difficulty of the position of the Government of India, remarks that “the uncertainty that has hitherto shrouded the action of Government has been attended with serious consequences to merchants and bankers, and will so continue to attend their transactions so long as they are kept in ignorance of the course of action the Government propose to take.” The Committee therefore “expresses a hope that His Excellency the Viceroy will, in the interests of commerce and of the country generally, accede the prayer of the 1st Resolution of the Meeting, and make public the intentions of the Government.”

As to the second Resolution, the Committee point out that its object is “not to prohibit coinage altogether; for that would be likely to bring about a collapse of credit; but to place all coinage in the hands of

the Government to be exercised at their discretion." "It appears to the Committee suicidal" for the Secretary of State to allow the competition of bar silver with the rupees which he has to offer to those requiring money in India, and that to suspend the free conversion of silver bullion into legal-tender coin is "not only a wise and reasonable, but a necessary, precaution of the Government of India to take for the preservation of their own currency, and to support the credit of their own loans, as well as to prevent the country from being swamped by silver sent in by foreign nations."

The Committee argue that the fact that the Government of India is compelled "to put their Mint stamp to all silver" sent to India "has given an artificial and fictitious value to silver, which would cease as soon as the law is suspended. Bar silver would then, gradually, fall to its own intrinsic value; and the extent to which it is depreciated would be soon gauged; whereas now, it is impossible to say how much its value is appreciated by our present 'open coinage system.'"

"When all Europe is closing its door against the import of silver with the avowed object of having as little of the metal as possible, should the depreciation be found permanent, it seems most impolitic," the Committee think, "to keep ours wide open for the reception of an unlimited quantity costing the country, through our coinage laws far more than its real intrinsic value." The Committee "can see no valid reason against" the immediate adoption by the Government of the second Resolution of the Meeting, and consider that "the objections brought against it have been based either on a misconception of its real scope, or on abstract principles (ignored by other States); whereas the position of affairs is altogether exceptional, and ordinary rules do not apply." The Committee represent that "the measures recommended in the Resolution are not more stringent than, (in fact scarcely so stringent as), the first financiers in Europe have found it necessary to adopt."

Lastly, the Committee point out that "there was a third proposition put before the Meeting, recommending the adoption of a gold standard, which, in deference to the feeling aparent among members present, was temporarily withdrawn;" and they refer the Government to the debate at the Meeting upon this proposal.

Read —

A letter, dated 1st August 1876, received in the Legislative Department from the Secretary, Calcutta Trades' Association, forwarding a Memorial from the Master, Wardens, and Committee of the Association, to His Excellency the Viceroy and Governor General of India in Council.

In this document the memorialists represent that they have, for many months past, been suffering great loss from the low rate of exchange, which bids fair to paralyse trade. The memorialists join earnestly with the Bengal Chamber of Commerce in urging on the Government the importance of declaring the policy it intends to pursue for the remedy of this evil, and pray that the policy of a temporary suspension of the compulsory coinage of silver may receive the early consideration of Government.

The memorialists further express great satisfaction at the desire manifested by the Government to encourage local manufactures, and suggest a relaxation of the Rules against the purchase of imported stores for the Government, in India.

Read—

The Report by the Select Committee of the House of Commons on Depreciation of Silver with the Proceedings of the Committee ordered by the House of Commons to be printed on the 5th July 1876.

OBSERVATIONS.—The Government of India has been for many months past, anxiously engaged in investigating the causes of the present depression of silver relatively to gold, and its effects upon the financial, commercial, and social interests of this Empire.

2. For 40 years before 1873 the price of silver in London was never less than 59*d.*, and for 22 years never less than 60*d.*, per ounce. From 1872 to 1875 the price fell to nearly 56*d.* Since then it has fallen with alarming rapidity; the price of silver having been, at one time quoted at 46*d.* per ounce. There has, indeed, been a subsequent reaction; but although the price of silver lately rose to 54*d.*, it has again declined; nor can any term be, as yet, predicted to the continued oscillation, in the relative value of the precious metals.

3. A fall so sudden, and so prolonged, in the price of the metal forming the legal tender of this Empire could not fail to affect injuriously its monetary transactions with England. The Government of India has to pay, in London, annually, in gold, about fifteen millions sterling. The greater part of this yearly charge is unavoidable, and permanent. The interest, for instance, on the sterling debt of India, and on the capital of the Guaranteed Railway and Irrigation Companies (amounting altogether to about 7 millions sterling); the pensions and annuities to retired officers of the Government, both civil and military, and their families (about 2½ millions sterling); that portion of the military expenditure which consists of pay and allowances; and most of the disbursements from the Home Treasury;—are all fixed by contract or honourable obligation, and cannot be reduced at discretion. Any divergence of the normal relative values of gold and silver must therefore have a most important bearing on the finances of the Indian Empire; and should such divergence be prolonged for any considerable length of time, it would be incumbent on the Government either to raise its Revenue, or to reduce its Expenditure, or to resort to both these expedients, in order to restore financial equilibrium.

4. In common with the Government, its chief civil and military officers, who, being of British birth, are under the necessity of remitting some considerable part of their earnings to their native land, must suffer heavily, their official incomes being fixed in silver, for a given quantity of which they will get a less quantity of gold. Moreover, all persons of the same nationality, who have placed their savings in the securities of the Government of India, or have invested capital in local industries, lie under a similar obligation to transmit a large portion of their profits to Great Britain, and are exposed to the same substantial loss. The Government cannot be indifferent to the interests of these classes. Nor are theirs the only interests affected: the violent fluctuation in the rate of exchange has had a baneful and disturbing

effect upon commerce; while the fall in silver, as compared with gold, has seriously checked and depressed the import trade. It is true that whenever an equilibrium may be reached, the exigencies of commerce will adapt themselves to any new ratio of value between the two metals; but it may be long before a stable adjustment of relative value is again attained, and meanwhile the mercantile world must suffer.

5. Such being the magnitude of the evil, and such the extent and variety of the interests involved, the Bengal Chamber of Commerce and the Trades' Association of Calcutta were, without doubt, fully warranted in addressing the Governor General in Council on the subject, and in urging the adoption of measures which, in their opinion, are calculated to remove, or alleviate, the misfortune. The Governor General in Council deems it due to these Associations, and to the public at large, that, after careful consideration of the proposals thus put forward, the Government should make known the reasons which have convinced it that none of them can at the present moment be adopted without inflicting on the country greater evils than those which they are designed to remedy.

6. The present disturbance in the equilibrium of the precious metals must be due to one of the following causes—

- (1) *the value of gold being unchanged, the value of silver is fallen;*
- or (2) *the value of the silver being unchanged, the value of gold is risen;*
- or (3) *the value of gold is risen and value of silver is fallen;*
- or (4) *the value of both metals is risen; but the value of gold is risen more than that of silver;*
- or (5) *the value of both metals is fallen; but the value of silver is fallen more than that of gold.*

The character of the remedies indicated if the disturbance is found to be due to a rise in the value of gold, will, obviously, differ from what would be suitable in the case of a fall in the value of silver; and to enable the Government to choose the right course among those open to its adoption, it is essential that it should ascertain which of these five possible causes of the disorder is the true cause. Should this be impossible, the Government must either defer action, or, if action cannot be deferred, take that course which, according to its best judgment, will do the least harm to the whole body politic, and produce the least injustice.

7. Now, the proposals of the Bengal Chamber of Commerce and the Calcutta Trades' Association, as well as nearly all the suggestions which have been made in the public journals on this subject, start from the assumption that, of the five possible causes of the present disorder, either the first is certainly the true cause, *viz.*, that the value of silver has fallen, the value of gold remaining unaltered; or that, in any case, the disorder is directly attributable to the altered value of silver, irrespective of any change that may have simultaneously occurred in the value of gold.

8. Accordingly, the Chamber invite the Government to take a measure calculated to enhance indefinitely the value of the rupee, by suspending the long-established legal right of all comers to have silver bullion manufactured, upon uniform conditions, under State supervision, into legal-tender coin, and temporarily substituting a system of coinage at the discretion of the State. It is obvious that the effect of such a measure must eventually be a fall in prices; which, as prices have not hitherto risen, would be an unjustifiable interference with private interests.

9. Silver is, at present, as it has long been, the legal standard of value in India. The first condition necessary for constituting and maintaining any metal a standard of value, is what the Committee designate, with some apparent disapproval, as "the open coinage system." If restriction be put in any country, upon the coinage of a metal, the value of the metal ceases, *ifso facto*, to be the standard of value in that country. Thus, if the Government of India, were to adopt the suggestion of the Chamber, silver would no longer be the standard of value in India, but another standard would be substituted, *viz.*, the monopoly value of the existing stock of rupees, tempered by any additions made to it either by the Government, or in an illicit manner. If no such additions were made, the value of the rupee would gradually, but surely, rise; just as the value of any commodity in general use, must rise if its supply be cut off.

10. Under such conditions there can be no doubt that the mint stamp of the Government would give "an artificial" (though not a "fictitious") value to every disc of silver on which it was impressed, just as it does in the case of any token or subsidiary coin, or as the signature of the representative of Government does to a currency note. But the Government of India is unable to agree with the Chamber that, so long as silver is freely coined, on uniform conditions, for all comers, the mint-stamp gives any artificial or fictitious value to the pieces which are thus converted into rupees; except in so far as the cost of manufacture, including the duty of seignorage, causes their value to differ from that of an equal weight of standard silver. The stamp of the mint certifies to the weight and purity of the silver contained in each disc on which it is impressed, and so saves the labour and cost of weighing and assaying the coin each time it changes hands; but, except by adding to it the cost of the process of coinage, including the duty of seignorage, it has no effect whatever upon the value of the disc, any more than have the shroffs' marks upon coins, still common in some parts of India.

11. It is essential to a sound system of currency that it be automatic. No man, or body of men, can ascertain whether, at any particular moment, the interests of the community, as a whole, require an increase or diminution of the currency; still less, how much increase or how much decrease is, at any moment, exactly needed. No Government which aspires to keep its currency in a sound condition, would be justified in attempting that impossible task; or in leaving the community, even for a short interval, without a fixed metallic standard of value. Under an "open coinage system," these things regulate themselves without official interference.

12. The Chamber has, apparently, misunderstood the action of the various European States, quoted in support of its Resolution. No European States, so far as the Government of India is aware, except indeed those with inconvertible paper currencies, have, in abandoning a silver standard of value, left themselves without a fixed metallic standard. All those States which have recently abandoned silver as a standard, have simultaneously adopted a gold standard. When Germany ceased to coin silver, she opened her mints to gold. So did the Netherlands. So did the Scandinavian Kingdoms. The case of the countries associated under the name of the Latin Convention is not different in principle: their standard was alternative; either silver or gold, according as gold was worth more or less than $15\frac{1}{2}$ times its weight in silver. These countries have, now, suspended the free coinage of silver, and so reverted, for the time being, to a sole gold standard: but none of them, except those whose currency is inconvertible paper, have been for a day without a fixed metallic standard of value.

13. It remains for the Governor General in Council to notice the argument urged by the Chamber of Commerce, that the extent to which bar silver is depreciated can only be gauged if the Government of India ceases to coin silver for all comers; and that it is impossible to say how much its value is appreciated by the present "open coinage system."

14. The value of every commodity—of gold and silver as much as of others—depends, on the one hand, upon the supply; in the other, upon the demand for the commodity, and that, again, upon the uses made of it. The principal demand for the precious metals is for manufacture into money for use as instruments of exchange and for hoarding. If either gold, or silver, or both, were wholly deprived of this field of employment, it is impossible to say how low the value of either metal, or of both of them, would sink. The Government of India is not aware that any commodity has an "intrinsic value of its own," apart from the demand for its use.

15. The main cause of the recent divergence of the values of gold and silver appears, from the evidence collected on the subject, to be the substitution of gold for silver as the standard of value, and, therefore, as legal-tender money, by several European nations; and there is no reason to doubt that if gold were substituted for silver as the standard of value, and, so, as the material of money, or even if the free coinage of silver on fixed conditions, into legal-tender money were suspended in British India, the effect upon the relative values of the two metals would be very considerable. But no practical object would be served by endeavouring to ascertain what would be the relative values of the two metals under conditions so widely differing from those which govern the present situation.

16. The Governor General in Council observes that the Committee of the Bengal Chamber of Commerce, when asking the Government of India to close Her Majesty's mints to the free coinage of silver into legal-tender money, would have advised the simultaneous adoption of gold as the sole standard of value in India; but that the Chamber was not prepared to adopt the suggestion. Such a recommendation would not have been open to the objections that appear to the Governor General in Council fatal, *in limine*, to the adoption of the Resolution actually advocated by the Chamber, *viz.*, to close the mints, temporarily, to the free coinage of the one metal into legal-tender money, without, simultaneously, opening them to the free coinage of the other into legal-tender money.

17. It is, however, the opinion of His Excellency in Council that there is nothing, as yet, in the nature of existing circumstances, notwithstanding the inconveniences and anxieties which they undoubtedly involve, demanding recourse to a measure so costly, and of which all the requisite conditions are, at present, so uncertain.

18. The divergence now noticeable in the values of gold and silver does not necessarily prove a diminution in the value of silver. It may be equally well accounted for by a rise in the value of gold; and, in fact it is probable that, since the commencement of this divergence in November 1872, there has been an increase in the value of gold as well as a decrease in the value of silver. The actual values, measured in silver, of general commodities, whether in India or in England, afford, as yet, no evidence of any recent, sudden, or violent fall in the value of silver; and, if *à priori* considerations strongly indicate that silver must have fallen, such considerations also make it probable that gold must have risen, in value.

19. Appended* to this Resolution is a series of tables of prices in London and in India, the information contained in which points to two conclusions—

1st.—That gold has risen in value since March 1873, and especially since last December.

2nd.—That it is not shown that silver has fallen in value, *i.e.*, as compared with commodities in general, either in London or in India, during the same period.

These conclusions are open to correction on a wider review of the economical causes which have been at work during the period: but they appear to indicate a rise in the value of gold as at least one of the causes which have disturbed the equilibrium of the two metals. The bearing of both conclusions upon the questions now before the Government of India is important.

20. It appears to the Governor General in Council, from studying the Report of the Select Committee of the House of Commons, and from such independent investigations as he has been able to make, that the recent divergence of the values of gold and silver is attributable to the following causes:—

- (1) the substitution of gold for silver as a standard of value by Germany, the Netherlands, and the Scandinavian Kingdoms; as well as what virtually amounts to the temporary adoption of a sole gold standard in place of their customary alternative standard of silver and gold, by the Countries of the Latin Convention:
- (2) the increased production of silver in the United States of America:
- (3) the decreased demand for silver in India.

Of these three causes, the first appears to the Government of India to have been, up to the present time, the most efficient.

21. The steady equilibrium so long maintained between gold and silver may, doubtless, be attributed to the fact of the two metals having shared, without material change, the only great field for the employment of either of them. This equilibrium has been disturbed by the recent rapid supersession of silver by gold, as the standard of value, in the richer countries in Europe; a fact calculated, *à priori*, to raise the value of gold no less than to depress the value of silver.

22. As to the second cause, *viz.*, the recent increased yield of silver in the United States of America, the Governor General in Council observes that, hitherto, this is chiefly due to the productiveness of one lode—the famous Comstock lode in Nevada—the ore of which yields gold and silver in nearly equal values, one-twentieth part of the produce being gold. The contents of the lode, though vast, are yet limited. The largest responsible estimate hitherto made gives the ultimate yield of the entire lode at about £60,000,000, of which the silver portion would be somewhat above £30,000,000. From various causes, but little of the increased produce has hitherto been offered for sale in Europe: and excepting in the way of (a perhaps exaggerated) apprehension as to their future productiveness, the American mines have not probably, as yet, had any important share in reducing the value of silver measured in gold. It is also to be remembered that the cost of production in these rich mines will not rule the market price of silver: the price will be regulated by the expense of production in the poorest mines which the demand for silver keeps in working: the difference will go as profit to the owners, and will not affect the market

* *Vide* Appendix.

price. If the event should prove that the price of silver is for the future lowered, then in proportion to such fall, the poorer mines will be closed, and the production of silver to that extent diminished.

23. As regards the third cause, *viz.*, the decreased demand for silver in India, the subjoined table shows (in crores of rupees) the net imports of treasure into India, by sea, since the beginning of the century :

From	To	Number of years.	NET IMPORTS.			AVERAGE YEARLY IMPORTS.			Proportion per cent. of gold to total imports.	BORROWED, INCLUDING GUARANTEED RAILWAY CAPITAL.		
			Gold.	Silver.	Total.	Gold.	Silver.	Total.		Eng-land.	India.	Total.
I. 1st May 1800	30th April 1835	35	...	...	75.11	...	...	2.15*	...	2.41	23.76	25.17
II. " 1835	" 1850	15	8.19	23.94	32.13	.55	1.50	2.14	25.40	.78	11.04	11.82
III. " 1850	" 1865	5	8.39	11.92	17.29	1.08	2.38	3.46	31.13	5.27	-2.04	3.23
IV. " 1865	" 1866	11	56.82	118.87	175.31	5.16	10.81	15.97	23.34	76.93	20.86	97.79
V. " 1866	31st March 1872	6	25.05	35.91	60.98	4.17	5.95	10.15	41.06	46.34	5.15	51.49
VI. 1st April 1872	" 1876	4	7.35	9.35	16.70	1.83	2.34	4.17	44.01	8.50	4.79	13.36
	TOTAL	76	...	...	377.92	...	...	4.97	...	140.32	62.56	202.88

* These figures are only approximately correct ; their distribution between gold and silver cannot at present be stated.

24. During the third of the periods separated in this table, the Crimean War transferred from Russia to India a substantial demand for oil-seeds and fibres.

During the fourth period, large sums of money were borrowed in England for the repression of the Indian Mutiny, and the American Civil War vastly enhanced the value of the raw cotton of India ; this enhancement was not exhausted during the fifth period. The circumstances of these two periods were altogether abnormal.

Even during the sixth period, a considerable amount was borrowed abroad, to relieve the distress arising from the failure of the rains of 1873 in Northern Bengal.

During the whole epoch from 1850 to 1876, there was a very large expenditure of capital, borrowed for the most part, directly or indirectly, in England, on the construction of Railways and Canals in India.

25. It is clear that, throughout the last 26 years, exceptional causes have operated to increase the amount of treasure required to settle the accounts of India with external countries. Under normal circumstances, the yearly demand of India for treasure has never been very considerable ; moreover, a large and, till lately, increasing proportion of the treasure imported has always been gold. Doubtless, if the abnormal demand of the 17 years, 1855 to 1872, had been permanently maintained, it would have favourably affected the values of the precious metals ; but it is not certain that even such a demand would have greatly raised the value of silver relatively to gold ; and its recurrence can only be anticipated if money should again be borrowed largely from abroad, either by the Government or otherwise. Apart, however, from other considerations which suggest the inexpediency of adding to the existing debt of India, the Governor General in Council is of opinion that the uncertainty as to the future relative value of silver and gold renders it highly inexpedient that, for the present, any public loan should be incurred, implying future obligations to be discharged in gold : if money be needed by

State, for the prosecution of Extraordinary Works, it must be borrowed in India, and in the currency of India.

26. With such facts before them, the Government of India apprehend that if loans be no longer raised in England, the excess of the export over the import trade of India will not more than suffice to meet the obligations arising from the Secretary of State's demands and those of private remitters; and there consequently appears no reason to expect that India (as the Chamber anticipate) will be flooded with depreciated silver.

27. On a review of all that has been advanced, the Governor General in Council, while deeply sympathising with the losses of individuals, and the disturbance of trade caused by the fall in the exchange value of the Indian currency, is still unable to recognise any of the proposals which have been put forth as calculated to afford relief without inflicting on the country losses greater than those under which it at present labours. Nevertheless, the anxious solicitude of the Government of India will continue to be directed to the subject, and to the consideration of any suggestions designed to ameliorate the existing evil.

28. The investigations prosecuted up to the present moment, have led the Government to the following conclusions:—

1st.—That the divergence of the values of gold and silver is not necessarily attributable only to a diminution in the value of silver; that there are strong reasons for believing that gold may have increased, as well as that silver has decreased, in value; and that this consideration must have an important bearing on the action of Government, in reference to the present disorder.

2ndly.—That, although it is most desirable in the interests of trade, that the standard of value in India should be the same as the standard of value in the chief countries with which India interchanges commodities, yet trade will not be permanently injured by a fall in the value of the rupee measured in gold, provided only that a fresh stable equilibrium of the precious metals be attained.

3rdly.—That, up to the present moment, there is no sufficient ground for interfering with the standard of value.

29. The Governor General in Council has, consequently, by the Resolution No. 1967, dated 31st July 1876, and now read again, already taken other steps for endeavouring to bring the revenue and expenditure of the current year into equilibrium. Nothing has occurred, since the issue of that Resolution, materially to lessen the apprehensions, or alter the opinions, therein expressed by His Excellency in Council.

30. Meanwhile, it is important that the Government should continue to use the resources at the disposal of the State for the development of the trade and productions of India. The Governor General in Council does not, therefore, intend to discontinue borrowing, for the construction of public works the remunerative character of which is thoroughly established, as much money as can be judiciously expended on them; provided always that money can be raised for the purpose on advantageous terms in the country itself. There are, in the judgment of the Governor General in Council, grave objections to any present increase of the liabilities of India fixed in gold.

31. The suggestion in the memorial from the Calcutta Trades Association, as to the purchase of stores for Government use in India, rather than in England, has already received, and will continue to receive, the attention of

the Government, both in England and in India. But, whatever the condition of the exchanges, there are various other circumstances which must, in the opinion of the Government of India, be taken into consideration in the determination of this question.

32. In conclusion, the Government desires to correct an important misapprehension manifested in the letter from the Chamber of Commerce, dated 22nd June 1876. The Rs. 33,20,000 provided in the estimates of the current year under the adjusting head, *Loss by Exchange*, was covered by the estimated Revenue of the year; credit was not taken for any borrowed money as if it were revenue: nor will the excess amount, borrowed during the year by the Secretary of State, be treated as Revenue, or set against the ordinary Expenditure of the year.

ORDERED, that this Resolution be communicated to the Bengal Chamber of Commerce and the Calcutta Trades Association, and to the Bombay and Madras Chambers of Commerce;

that copy be sent to each Department of the Government of India, and each Local Government and Administration;

and that it be published in a *Gazette of India Extraordinary*.

XXIX.

DESPATCH TO THE SECRETARY OF STATE FOR INDIA, NO. 868, DATED 13TH OCTOBER 1876.

In continuation of our despatch No. 263, dated 31st July 1876, and with reference to the 71st paragraph of Your Lordship's review of our estimates for 1875-76, No. 305, dated 10th August 1876, and to the telegraphic correspondence of which we append copy, we have the honour to invite the attention of Your Lordship in Council to our Resolution published in the *Gazette of India Extraordinary*, dated the 22nd September 1876, upon the subject of the consequences to British India of the present depreciation of silver in relation to gold.

2. While it seemed to us that the people of India were entitled to know the results of our deliberations upon a subject of such vital importance to them, so far as these results could be conveniently made known, we were restrained by obvious considerations from publishing our views and expectations without much caution and reserve. But difficult and complex as are the questions demanding our attention in consequence of the disturbance of what had, for so long a time, been the normal equilibrium of the precious metals, and diffident, as we cannot but be, of the soundness and permanence of our conclusions, we feel it our duty, in addressing Her Majesty's Government, to discuss the subject with freedom, and to communicate to Your Lordship our present convictions and suggestions, undeterred by the apprehension that they may be modified by the course of events.

3. We have pointed out in our Resolution that the present divergence of the values of gold and silver may be caused either by a relative increase in the value of gold or a relative decrease in the value of silver, and indicated our opinion that it is, in fact, probably due partly to one cause and partly to the other. The effect upon our finances, whatever the origin of the disorder, is such as to cause us grave anxiety. Judging from past experience, we hope that if the rupee should prove to be permanently worth 1s. 8½d., our existing revenues would be found, on an average, quite sufficient to support our existing ordinary expenditure. But we could expect no material margin to cover the many contingencies which the Government of so extensive an Empire must be prepared to meet, nor any surplus to reduce, in years of peace and prosperity, our debt incurred in past times of war and of seasonal calamity.

4. Moreover, it is our established practice—a practice enjoined upon us by Her Majesty's Government, and which is indeed plainly dictated by prudence—to frame our estimates so cautiously as, in effect, to reserve for unforeseen contingencies during the year some margin of revenue in excess of the surplus shown by the estimates. Unless this policy be abandoned, our accounts will continue to be, as they have for some time been, and as in our judgment they ought to be, somewhat more favourable than the estimates. In other words, if, with the exchange at 1s. 8½d., we can expect only a bare equilibrium of revenue and ordinary expenditure upon the accounts, we could not (without changing the principles on which our estimates are framed) shew the desired surplus upon the estimates, with a less favourable exchange, probably, than 1s. 9d. the rupee.

5. Should the value of the rupee fall permanently below 1s. 8½d., a contingency which certainly at the present time cannot be regarded as impossible,

then, in order to maintain financial equilibrium, it would become necessary for us to adopt measures either for raising the value of our standard, or for reducing our ordinary expenditure or increasing our revenues. We calculate roughly that for every 1*d.* by which the sterling equivalent of a rupee may fall below 1*s.* 8½*d.*, we shall be compelled to improve by one crore of rupees the balance of our account excluding the extraordinary expenditure.

6. To whatever extent the decrease in the sterling value of the rupee is caused by an increase in the value of gold, there is a direct addition to the burden of the liabilities of India to Great Britain, the main item of which is the great sum disbursed yearly, under fixed conditions, from our Home Treasury. An addition to the liabilities of India arising from an increase in the value of gold, so far as it affects the State, can be legitimately met only by an equivalent improvement of the account of revenue and ordinary expenditure, *i.e.*, either by an increase in the revenue or a decrease in the ordinary expenditure; there is no way of avoiding this necessity. To meet any obligation thus caused by raising the value of our standard unit of value would, we conceive, be an especially vicious form of class-taxation; for the burden of it (while virtually raising the demand of Government on those who reap the products of the soil) would fall exclusively upon the poor and indebted, the rich and creditor class benefitting, like the State, at the expense of the rest. We should consider this expedient quite inadmissible.

7. On the other hand, to whatever extent the decrease in the sterling value of the rupee may be due to a decrease in the value of silver, there is (apart from the increased charge necessary to meet our obligations at Home in gold) no real addition to the sum of the liabilities of the country, and what is called for is a re-distribution of these liabilities, not involving, on the whole, any increase of taxation or, directly, any decrease of expenditure. Such re-adjustment could only be made thoroughly by a restoration of the lost value of the standard unit of value; but this would be a costly measure beset with serious obstacles and fraught with difficulties, the formidable character of which must not be underrated.

8. We consider it certain that, if we should find it necessary to make any change in our standard unit of value, it would be incumbent upon us sooner or later, and more or less quickly, to call in our old currency, and, directly or indirectly at the public expense, to substitute a new currency representing the new standard by real value. Our present standard unit of value would, doubtless, immediately cease to exist, if we were simply to cease the manufacture of coins of this standard; and provided only that we did not annex conditions so severe that they could not be profitably accepted, any new standard that we might adopt would be established at once by the mere act of opening our mints to the manufacture of coins of the new standard alone, upon fixed and uniform conditions. Our existing full-legal-tender coinage would, if we authorised the manufacture of no new full-legal-tender money, represent domestically a new standard, the value of which would be the monopoly value of the existing stock of coins. If we introduced a new and more valuable standard, the existing coins would represent domestically the new standard, just as the full-legal-tender silver coins of France, and her associates of the Latin Convention now represent domestically not their own independent value, but that of the coins of equal nominal value in gold, which is, for the time being, the sole monetary standard of those countries.

9. We are thus quite aware that our standard of value might be enhanced without any immediate change in the body of our currency; and that we

might, for a time, enjoy many of the advantages of a gold standard, without undergoing the expense of introducing a gold currency. But we wholly distrust the advice and conclusions of those who think that such a state of things could be tolerated permanently, or even for any considerable length of time; in other words, that we could introduce an enhanced standard, and yet, indefinitely, escape the obligation to introduce an enhanced currency. So long as the currency of a country is out of accord with the standard, the country is exposed to all the evils of an inconvertible paper currency: the value of its money abroad differs from its domestic value, and the community is exposed to the depredations of coiners and forgers. It is not, we conceive, necessary for us to multiply arguments on this point: but we must record our deliberate conviction that, although we could, hardly, under any circumstances, hope to effect an enhancement of our standard of value, without being compelled to endure, for a time, the evils inseparable from a currency not truly representing the standard, it would be our imperative duty to adopt immediate and definite measures to bring this state of things to an end, within a specified time, by the introduction of a sound currency, that is to say, of a currency representing the standard by its own independent value, abroad as well as at home.

10. The cost of an enhancement of the standard of value in any country must depend (1) upon the nature of the particular enhancement made, and (2) upon the volume of the currency to be superseded. A mere addition to the weight of the existing unit of value would enhance its value without any concomitant depreciation of the material of the superseded currency, which would rather gain in value by such a measure. For example, the weight of fine silver in a rupee might be increased from 165 to 181½ or 199 grains (*i.e.*) by 10 or 20 per cent., without any injury to the value of the silver in the present rupees which it would be necessary then to call in; on the contrary, such a measure would be favourable to the value of silver in every form including the silver in the disused rupees. But the substitution of gold for silver could not but have an unfavourable effect upon the value of the rejected metal in every form, including the metal in the superseded coin. Thus if for 10 rupees containing 1,650 grains of fine silver, we should substitute a gold piece of 10 rupees containing 99.878* grains of fine gold it is impossible to estimate the extent to which the value of silver, and, therefore, of the superseded silver rupees, would be depressed.

11. The cost of any enhancement of the standard unit of value in a country is the difference between the value of the material of the new currency plus the expense of its coinage (not including seignorage) and that of the material of the old currency which must be withdrawn, after its demonetisation: and, as already said, a mere addition to the weight of the unit without a change of its material would, probably, be much less costly than a change of the metal itself. But whichever method be adopted, the actual cost of the measure must be in proportion to the volume of the disused currency. Upon this point, we observe that as 216 crores of rupees have been coined in India since May 1835, and 166 crores since May 1850, there seems no room for doubting, after all allowances are made for the disappearance of our coined silver through exportation, losses, or domestic conversion to other uses that the volume of the existing silver currency of British India is large, and that the expense of withdrawing it would be great.

At this rate Re. 1=1s. 9d. See *infra*, para. 16.

12. We can hardly estimate the coined rupees now in existence at less than 200 crores. The cost of enhancing the value of this mass of coin by adding to the fine silver in the rupee would depend of course upon the weight added; an addition of 10 per cent. would cost 20 crores, an addition of 20 per cent. would cost 40 crores of rupees; and there would be the further cost of coining the new rupees to the extent to which they might be demanded.

13. The cost of substituting a gold currency for the existing 200 crores of rupees would depend—

- (1) upon the weight of the new gold unit of value and the value of gold relatively to silver after the announcement of the measure;
- (2) upon the volume of the silver subsidiary or token currency which would be necessary;
- (3) upon the value of the rest of the silver in the present coinage which must be called in after its demonetisation.

Upon the first point it is important to observe (a) that no enhancement of the standard unit of value is admissible beyond the point necessary to regain a value lately and suddenly lost; in other words, the Government might, upon adequate occasion, be justified in taking measures to restore to the standard unit of value, value quite recently lost, or to prevent an anticipated loss of its value, but nothing more; (b) that it would be necessary to take into consideration the effect upon the value of the reformed standard unit of value of measure so adopted. The value of gold would be surely enhanced by the substitution of gold for silver as the standard of value, and, so, as the material for the legal tender coin of British India; in fixing the weight of the gold unit of value to be adopted, it would be necessary to bear in mind this certain concomitant enhancement of the value of gold.

14. To raise the standard of value of any country above its actual or very recent value would be a breach of the public faith. Innumerable contracts are made, day by day, upon the basis of the standard unit of value and in the faith that no change will be made in the standard: the parties to such contracts must accept the risks of any natural and fortuitous changes in the value of the standard of value; but although the State might, upon sufficient cause shown, properly and with benefit to all concerned, interfere to prevent, by its own act, future violent changes in the value of the standard, it could not, without injustice to numerous private interests, carry any such adjustment far backwards.

15. It is especially important to observe that the State would have no right to change or enhance the standard unit of value either for the benefit of the public revenues, or of any class or classes of the community, however influential or valuable, or on any ground other than that the relations of the whole community were so disturbed by the alteration of the value of the standard that the common weal required its re-adjustment.

16. Bearing in mind these several considerations, and remembering the consequences, affecting the value of gold, that must follow in other countries upon the introduction of a gold standard into British India, it seems to us out of the question to expect that it would, under any circumstances now conceivable, be proper for the Government to adopt a gold standard unit based upon the common popular assumption that the proper value of the rupee is one-

tenth of a pound sterling; the highest estimate of what might, now, be a proper sterling value for a new gold standard unit of value in British India could hardly exceed 1*s.* 9*d.* For the present, however, it is only necessary to remember that, inasmuch as the country must, eventually, bear the loss of the value of the called-in rupees as compared with that of the new standard unit, the cost of the measure would depend, in one aspect, directly upon the value fixed for this new unit, whatever it might be.

17. The second element which must be calculated before any estimate can be made of the cost of substituting, in any country, a gold for a silver currency, is the amount of silver that would be required for the subsidiary or token silver currency. This amount cannot be ascertained by any general rules, but would depend upon the population, the wealth and the habits of the country and upon the character of its currency. The nominal value of the silver token currency of Great Britain (*estimated population* 33,000,000) is supposed to be about £19,500,000, all coins below the half-sovereign being tokens. In France (*estimated population* 35,000,000) token coins to the nominal value of only £9,167,213 in all were struck from their first introduction in 1864 to the end of 1875, but in France there are full-legal-tender 5 franc pieces (=4*s.*), and the largest token coin is the 2-franc piece. In Germany (*estimated population* 43,000,000), where the lowest full-legal-tender piece is 5-marks (say 5 shillings), silver token coins of the nominal value of £14,148,554 had been struck to the 12th August 1876: the total amount that Germany will require is still matter for conjecture, but the law authorises the issue of 10-marks a head of the population, or, at present, £21,500,000 in all. The Resolution of Congress, dated 24th July 1876, fixed the maximum nominal value of the entire subsidiary currency of the United States of America (*estimated population* 42,000,000), where the smallest full-legal-tender coin is the dollar (=4*s.*) at 50,000,000, or say £10,000,000. Doubtless, however, the volume of the subsidiary coinage of British India with its vast and poor population (*estimated at* 185,000,000), which must in the greater part of the transactions of life make use of a material less costly than gold, would be large and, perhaps, for present purposes, we may estimate it at 30 crores of rupees.

18. If so, upon the assumption already made, that there are now 200 crores of legal-tender rupees in existence, the cost of the measure would be 170 crores of the new rupees less the value of the 52,646,400lb. troy of standard silver contained in the superseded rupees, and plus the expense of manufacturing the new coins. To complete the calculation, it would be essential to estimate what the value of silver measured in gold would become, if gold should be substituted for silver as the legal standard of value in British India; and this can only be subject for speculation. At 2*s.* 6*d.* an oz., the standard silver in 170 crores of rupees would be worth £78,969,600. Upon the whole, it seems impossible to mention any sum under 100 crores of rupees as the estimated cost of substituting gold for silver as the standard of value, and, ultimately, as the material of the full-legal-tender coinage of British India: and, considering the wide-spread demonetisation of silver that would probably ensue in other countries, the cost might, very likely, be much more.

19. The question still remains for discussion, whether the cost of any measure for changing the standard of value and the material of the full-legal-tender coinage of British India should fall upon the public revenues

or upon the holders of the coinage. Regarded broadly as affecting the interests of the country as a whole, it is not of such importance, as might at first sight appear, how this question is decided; for, whether it be defrayed from the public revenues or from the property of individuals, the loss must inevitably be borne by the country. But, in our present judgment, there can be no doubt that if the standard of value and the currency are, for the public weal, changed by an act of the Government, the entire cost of the measure should, in justice, be borne by the State, and should not fall upon the individuals who happen to own the currency when it is called in. If the value of the standard of value is reduced by some accident or some external circumstances over which the Government can exercise no control, there is no reason why the State should hold the possessors of coin harmless from the consequences; but it would be a breach of the public faith if the Government were, by its own act, to reduce the value of the existing currency without indemnifying the holders.

20. If our views are so far correct, the case stands thus: There is much reason to apprehend that, for the present, even if we were to change the standard unit of value, and if there were no further national demonetisations of silver, the rupee would be worth little more than 1s. 8d. sterling. If we had been obliged to estimate for the entire supply of the Home Treasury this year at this rate, borrowing nothing in sterling money, there would have been a deficit upon our estimates of ₹78,40,000; and this, although our estimates were, in some respects, fuller than is customary. After a careful examination of the condition and prospects of our existing sources of revenue, we cannot anticipate any considerable or rapid improvement in them. If therefore we are to calculate upon a future exchange of 1s. 8d., we must either increase our revenue or decrease our ordinary expenditure by at least half a crore of rupees a year. We fear that it is by no means an excessively desponding forecast, that if, eventually, measures for reforming the standard should take the shape of an increase to the weight of the fine silver in the rupee, they would not cost the State ultimately less than 40 crores, and, if they should take the shape of a substitution of gold as the standard of value, 100 crores of rupees.

21. Briefly, upon a moderate view of the situation, we cannot estimate at less than 5½* crores of rupees the yearly improvement necessary in the relation between our revenue and our ordinary expenditure, to enable us to adopt gold as our standard of value and thus restore our currency to the completely sound condition attainable only by this measure. We might possibly, in case of need, effect a considerable improvement in the standard by adding 20 per cent. to the weight of fine silver contained in our unit if we had 2½† crores at our disposal annually in excess of our existing resources. The sterling value of the rupee must fall to 1s. 6⁵/₁₆d. (standard silver 47·02d. the oz.) before our financial state could be as bad as it would be if we were compelled to add 20 per cent. to the weight of fine silver in the rupee; and to 1s. 3¼d. (standard silver 41·02d. the oz.) in order to place us in the finan-

Crores.	Crores.
* Deficit, apart from the reform of the currency	† Deficit, apart from the reform of the currency
Interest on 100 crores of rupees	Interest on 40 crores of rupees
5	2
5½	2½
=	=

cial condition in which we must expect to find ourselves after introducing a gold standard and a gold currency.

22. It may be well, however, to examine further the relative advantages of an addition to the weight of fine silver in the rupee, and of a change to a gold standard and currency. We have shewn that the former alternative, the improvement of the silver standard unit of value, would probably be much the cheaper : but its actual cost would be uncertain, and there would be a want of finality about the measure that would make it, as a currency or monetary device, vastly inferior to the adoption of a gold standard : indeed, in the opinion of our honourable colleague Sir William Muir, this is a remedy which, under no probable contingency, the Government would be justified in adopting.

23. The adoption of a gold standard would be a far more complete remedy ; but it would be indefinitely costly, and it would have the grave disadvantage of operating directly to raise the weight of our net foreign obligations. The yearly disbursements in England on behalf of our Government alone cannot be estimated at less than 15 millions sterling, a large part of the component items being more or less permanently fixed. The means for these disbursements are supplied, ultimately, by the export of Indian commodities which are, directly or indirectly, exchanged for gold. Any rise in the value of gold would necessitate a corresponding addition to the quantity of commodities which must be supplied by India for this purpose, and is therefore opposed to the interests of India.

24. Moreover, the condition of the account between India and the external world is such that we cannot but regard any such increased demand upon India with apprehension. In paragraphs 23—26 of our Resolution, we have adduced reasons for thinking that, even in the past, if we had borrowed no money, directly or indirectly, from abroad, there would have been but small balance in favour of India, upon the account between her and the external world. In the last quarter of a century, it appears that, but for the accidental enhancement of the value of our cotton exports, owing to the American Civil War, there would have been no such balance at all. In further illustration of these facts, we present a statement of the principal details of the account between India and the external world for the ten years ending the 31st March last.

25. An abstract of these statistics may be thrown into the form of an equation as follows :—

India and inland Asia trading through India, in account current with the world beyond sea ; 1866 to 1876 (in crores of rupees).

Dr.		Cr.	
Net imports of treasure	78	Value of exports in excess of value of imports. Commodities other than treasure	199
Net disbursements from the Home Treasury of the Government of India	117	Net amount borrowed by the State, directly, in England	55
Balance, being the net result of all other transactions, private and public, including the rupee debt indirectly incurred abroad	59		
	<u>254</u>		<u>254</u>

26. The average annual disbursements of the Home Treasury, in future, can hardly be calculated at less than 13 millions sterling, besides payments for stores,* being, at 1s. 8d. the rupee, 15½ crores of rupees. If, therefore, there be no further additions, direct or indirect, to our public foreign debt, the average account of India with the external world, in the future, may be expected to be as follows:—

India and inland Asia trading through India, in account current with the world beyond sea; annual average (in crores of rupees).

Dr.		Cr.	
Net disbursements from the Home Treasury	15½	Excess value of exports, other than treasure exported in settlement of the Account	20
Net settlement of other transactions, public and private	6	Balance against India	1½
	<u>21½</u>		<u>21½</u>
TOTAL	<u>21½</u>	TOTAL	<u>21½</u>

27. It is assumed, in this equation, that the net yearly average amount of private remittances to Great Britain is 6 crores of rupees, which is the average deduced from the foregoing decennial account. The amount has been estimated, on other grounds, at a considerably lower sum, *viz.*, 4½ crores; but supposing we were to take it as low as 5 crores, and the rate of exchange as high as 1s. 9d., the two sides of the equation would be nearly balanced: in other words there would be no excess of obligations in favour of India, to be met by payments in bullion. It is further assumed that the fall in the sterling equivalent of a rupee to 1s. 8d. is wholly due to the appreciation of gold; to whatever extent it is actually due to the depreciation of silver, the number of rupees required to exhibit the excess value of exports would be increased, and the balance against India decreased, without any increase of the *quantity* of the net exports. On the other hand, any further appreciation of gold would aggravate the balance against India, which must be redressed either by a reduction of imports or an increase of exports.

28. There is clearly no probability of any large influx of treasure into India in the early future; and, without severe sacrifices, India could not, at present, meet much heavier obligations in gold than she now does. If, indeed, the present disorder in the exchanges is due, as is so widely supposed, only to a fall in the value of silver, the account between India and the external world will eventually not be in any way injuriously affected. It is the value of *gold*, and not of silver, that chiefly affects the interests of India in her account with the rest of the world: she is burdened with a heavy load of obligations fixed in gold, and her interest is, therefore, strongly opposed to any increase in the value of that metal. A large decrease in the value of silver would involve India in painful domestic re-adjustments, and serious, though limited, direct loss in the value of her stock of silver; but, owing to her heavy foreign indebtedness, a fall in the value of silver could hardly be so injurious to her as a corresponding increase in the value of gold. It seems to be of primary importance that this should be thoroughly apprehended in considering the question of a gold standard.

* NOTE.—The value of stores imported on State account is included in the value of imports set off in calculating the value of the net exports, and must not, therefore, be counted again in the disbursements from the Home Treasury.

29. Bound up with the arguments thus adduced, is the question whether, in fact, India could adopt a gold standard, without causing so considerable an increase in the general value of gold; in other words, so large a decrease in general prices, as, apart from its more immediate effects upon the foreign obligations of India, might produce serious economic disturbances not only in India but in the world at large.

30. It seems highly probable, as we have already remarked, that the rejection of silver by British India as a standard of value and as the material of full-legal-tender money, would cause so great a fall in the value of this metal that it would be impossible for other civilised nations to continue to use it as full-legal-tender money; so that the adoption by India of a gold standard would probably involve its adoption by various other countries. Doubtless, the calculations made by Humboldt, Jacob, and others of the stock of the precious metals in human possession at different periods do not profess to be precisely accurate, and cannot be trusted within wide limits. But there does seem good reason for thinking that, counting silver, as in 1848, equal to one-fifteenth-and-a-half part of its weight in gold, the stock of gold alone now in human possession does not exceed two-thirds of the stock of the two precious metals together in 1848, *i.e.*, before the discovery of gold in California. Prices in 1848, measured in either metal, were unduly low; and, since 1848, there has been a vast expansion of the population and commerce and wealth of the world. After making large allowances for the simultaneous development of various expedients for dispensing with the instrumentality of metallic money and for the much cheaper production of many general commodities, there appears to be ground for grave apprehension that the metallic money of the world could not now, without revolutionary results, be supplied by two-thirds of the stock in human possession in 1848.

31. We should not, perhaps, pass without notice the suggestion that we might raise the value of our standard unit of value by increasing the duty of seignorage, without any alteration in the weight or substance of the unit itself. This is, doubtless, true within limits; though it would be always uncertain how far any increase of seignorage would cause a further fall in the value of silver, and, to whatever extent this result might be produced, the object in view, the enhancement of our standard, would not be attained. Subject to this drawback the expedient might perhaps be entertained as a temporary measure only, preliminary to an addition to the weight of pure silver in the rupee, and pending the ascertainment of the proper addition to be thus made which could not be settled until the true permanent value of silver under its new conditions was known. The objections to this method, as a permanent arrangement, appear to us to be insuperable: they are of the same character as the objections to an inconvertible paper currency, *viz.*, that the currency would be exposed to the depredations of coiners and forgers, and that its domestic value would differ from its foreign value.

32. One other consideration should not be overlooked in relation to all measures affecting our currency, namely, that, as pointed out by our honourable colleague Sir William Muir, in a Minute attached to our Resolution, though not published, it is not easy to foresee the effect of any change of our currency upon the operations of the mints of Native States, whose coins circulate more or less freely in some parts of our territories.

33. We have deemed it our duty thus to examine the arguments for and against the several possible methods of enhancing our standard unit of value,

because serious as is the existing divergence of the value of silver and gold, it is possible to suppose that it has not yet attained its greatest or permanent limits: it behoves us, therefore, to determine, as much as possible, beforehand, what our policy should be in the event of a further considerable fall in the value of silver measured in gold, or even in general commodities.

34. We have announced in our Resolution that it is not our intention, at present, to increase our sterling liabilities, if we can possibly avoid doing so. In this decision we understand that we are carrying out Your Lordship's repeated instructions, and may count upon Your Lordship's cordial support and concurrence; but, in this case, as we have already shown, there is little probability that any considerable amount of the precious metals will be due to India, in settlement of her account with the rest of the world. The consequent anticipated cessation of demand for silver in India will evidently, so far, exercise a disadvantageous effect on the future value of silver relatively to gold.

35. The future production of silver in North America is uncertain. There does not appear to be, as yet, any definite and positive ground for anticipating the discovery of other deposits equal in richness to the Comstock Lode. At the same time, there seems some reason to apprehend that the mineral occurs abundantly, if not profusely, throughout the region between the Missouri River and the North Pacific Ocean; and we fear that it is not an improbable expectation, that, in the hitherto-unexplored parts of this region, further discoveries may be made. In any case we cannot, reasonably, count upon any early diminution of the present rate of the supply of silver.

36. But it appears to us that at present the future value of silver, relatively to gold, chiefly depends upon the course which may be adopted in regard to the metal, by the countries associated under the name of the Latin Convention, and, in a secondary degree, by the United States of America. The volume of the metallic currency of France is exceptionally large; and, so long as the French Monetary Law of 1803 was in force, the value of silver could not fall below one-fifteenth-and-a-half of its weight in gold, without the immediate influx of silver into, and efflux of gold from, France, until the value of silver, relatively to gold, was regained. The provincial closing of this avenue to the employment of silver points to a contingency which, in our judgment, would be more directly injurious to the value of silver than any other recent event.

37. The course which France has up to the present time adopted, leaves her with silver money estimated to be worth, nominally, about 88 millions sterling; and the question which, we think, most immediately concerns us is what will be the future monetary policy of France. If France and her Associates of the Latin Convention should revert to their customary alternative standard, it is conceivable that the United States of America might follow their example, and that we might witness a very considerable recovery of the value of silver; but we can hardly venture to hope that the French people will elect this policy, involving, as it must do, the exportation of gold from France and its replacement by the far less convenient metal. On the other hand, it seems very questionable whether France can stay in the middle course which she is now pursuing, and adopt, permanently, a gold standard with one-third of her full-legal-tender currency silver. It seems probable that, as soon as France resumes specie payments, the operation of the Gresham law upon the present constitution of her currency, must cause the expulsion of the more valuable gold by the less valuable silver, as surely as would the restoration of the Law of 1803 itself. There is, therefore,

ground for apprehending that France must, before long, elect between a reversion to the alternative standard and the demonetisation of her 88 millions sterling worth of silver coin, and we fear that it is more probable that she may adopt the latter than the former alternative.

38. There can be no doubt that the demonetisation by France of 88 millions sterling worth of silver coin would have a disastrous effect upon the value of silver as measured in gold; and, so, upon the interests of British India: it would diminish the probability of the United States of America, or any other civilised country, re-admitting silver to the rank of full-legal-tender money, and would, in its bearing upon the value of silver, be second only in importance to the demonetisation of the metal in British India itself.

39. On the other hand, if we, on our part, should take measures for demonetising silver in British India, the consequences to France would be very serious: but France is a rich country, and India is a poor country; and, heavy as is the debt of France, she could afford to bear the vast loss that must follow upon the sale, under such circumstances, of her 88 millions of silver, much more easily than India could bear the loss upon the 170 crores of rupees which must be sold if the silver standard is given up in India. Nevertheless, it seems to us to deserve anxious consideration whether the circumstances do not point to the expediency of some concerted action between France and India, to which other countries might perhaps become parties.

40. If no such concert is thought possible, we ought still to be ready with some course of action in the event, which we cannot but dread, of France demonetising her 88 millions of silver money. Great and manifold as are the obstacles to our adoption of a gold standard in India, it might possibly be found that we could, then, no longer avoid the transition at all hazards. It deserves consideration whether if, on full deliberation, such a conclusion were admitted, we should not be prepared for prompt measures in case of France demonetising her full-legal-tender silver money, and whether it would not be expedient that an intimation to this effect should be conveyed to the French Government.

41. Meanwhile, Her Majesty's Government has doubtless already perceived that, in any case, there lies before us a time of grave financial anxiety and difficulty, the issue of which cannot, at present, be foreseen. Whatever other measures may be taken hereafter, our immediate duty is plainly, to curtail all avoidable expenditure, and to develope, to the utmost, our existing resources. We are accordingly, engaged upon enquiries in all departments of the administration as to the possibility of organic reductions of expenditure, and, as you are aware, have already taken stringent measures to reduce current expenditure and to increase the productiveness of such branches of our revenues as are susceptible of improvement.

42. We have also, in accordance with Your Lordship's repeated instructions,* resolved to reduce our expenditure upon Public Works classified as Extraordinary within the limit of the amount which we may find ourselves able to borrow in India on adequately advantageous terms. What this amount

* Secretary of State to Government of India, No. 387, dated 23rd July 1874, paragraphs 53 to 56.

Government of India to Secretary of State, No. 135, dated 7th April 1876, paragraph 15.

Secretary of State to Government of India, No. 305, dated 10th August 1876, paragraph 74.

may be, experience only can decide; but we cannot prudently estimate it, even at the outset, at more than 2 or 2½ crores of rupees a year; and for a permanency, it may prove to be even less than this sum. So far as the currency question is immediately affected, we need not hesitate to borrow the full amount which we find ourselves able thus to raise, and for which interest is payable in silver; but we must not forget that a large portion even of the money thus raised in India will certainly come from England, and that the sum of our net foreign obligations may thereby be inconveniently, though indirectly, increased.

43. Our decision thus to restrict our expenditure on Extraordinary Public Works is in strict accordance with the instructions contained in the 79th paragraph of Your Lordship's despatch No. 305, dated 10th August 1876. Nevertheless, we have not adopted it, without great reluctance or without careful advertence to the motives which, in the past, have dictated a policy of free expenditure on these works, and to the great inconvenience and hardship devolving on our large establishments affected by the partial relinquishment of this policy, as well as to the considerations which still induce many authorities whose opinion is worthy of high respect, to advocate a bold investment of capital in opening out communications, and otherwise developing the resources of India as the chief remedy indicated by the existing disorder of our finances. But it seems to us that we have, in truth, no choice but to restrict our outlay of capital to the amount which we can borrow without endangering our solvency, and that we must, whether we will or no, forego the advantages which might result from a larger expenditure.

44. In considering, upon this principle, the amount which we can safely invest in Extraordinary works, we must bear in mind that the whole of the expenditure classed as Extraordinary in the past was not even intended to be directly remunerative. Till recently, the strict test of direct reproductiveness has been applied only to irrigation works, and we know that many even of these works have not really yielded, and cannot be expected in future to yield, a net revenue sufficient to cover the interest upon all the capital expended upon them. In the 25th paragraph of our despatch No. 135, dated 7th April 1876, we reported that, as yet, none of our State Railways fulfil this condition, and that the Rajputana State Railway alone can, with any confidence, be expected, hereafter, to do so.

45. In the 76th paragraph of your despatch No. 305, dated 10th August 1876, Your Lordship has now deliberately and finally declared "that it would be unjustifiable to undertake, out of money to be obtained by borrowing, any outlay on account of new works, unless their yield will cover the interest of the loan." We take this declaration, with its context, to be an instruction, to which we shall yield careful and willing obedience, not, in future, to propose for admission to the category of Extraordinary works—(the rule already applies to irrigation works)—any Railway, for whatever purpose it is constructed which is not estimated to yield, directly, a net revenue sufficient to cover the interest upon its capital cost, whether the capital be obtained by borrowing or from Surplus Revenue on the Ordinary Account. We think that no sound distinction can be made in favour of any works classified as Extraordinary on the ground that their cost may be partly met from Surplus Revenue on the Ordinary Account, and we do not understand Your Lordship to intend that we should make any such distinction. Not only are our prospects of such surplus in future too uncertain for any course of action to be built upon them, but sound financial principles demand that any surplus so

accruing should be held absolutely hypothecated for the reduction of debt already incurred in the past otherwise than for reproductive works, which class of debt, we may, by uncontrollable circumstances, be yet compelled to increase in the future. Whether the construction of any work leads to an addition to the charge upon our revenue for interest, or prevents the diminution of the existing charge, its effect upon our finances is the same.

46. The conditions upon which alone any work, whatever its character, will, in future, be admitted to the extraordinary category, are thus, at length, clearly settled and will not, we hope, be again disturbed. But, meanwhile, we have ascertained that we are already pledged to spend no less than 6½ crores of rupees upon works which do not fulfil these conditions (chiefly the State Railways in Northern and Western India), in addition to the expenditure already incurred upon them; in other words, we are already pledged to 6½ crores of rupees of further expenditure to be classed as extraordinary, but which cannot be expected to yield any substantial net revenue. We repeat that these circumstances should increase the caution with which we are bound at present to contemplate any fresh expenditure for which provision is not made from revenue under the ordinary fundamental financial rules and restrictions.

47. In the present state of uncertainty as to the future relative values of silver and gold, we heartily concur with Your Lordship in thinking that nothing should induce us to increase our Sterling obligations, if we can by any means avoid doing so.

48. While thus fully aware of the onerous responsibilities which press upon ourselves, we cannot but apprehend that the circumstances may further call for decided action upon the part of Her Majesty's Government also. Any retrenchments which are possible in the Home Expenditure would have a special value in lessening the amount which we have to remit in payment for gold. We do not indeed suppose that any very large savings could be obtained by economy exercised by Your Lordship in Council in the expenditure of Indian revenues from our Home Treasury under your control, although we doubt not that all that is possible in this respect will be done; but we are dependent upon Your Lordship's action in some matters which may have a very important bearing upon our finances.

49. We look for substantial relief to our exchequer from the purchase, under the right reserved to us by our contracts, of the several Railways constructed by Companies with capital raised under a guarantee of a minimum interest from our Revenues. Upon this subject, we ask Your Lordship's attention to our letter in the Public Works Department, No. 195, dated 6th October 1874, and to your answer No. 174, dated 19th November 1874. We have not, hitherto, thought it necessary to make any rejoinder to that despatch, because we felt bound to defer to Your Lordship's opinion that it was, at that time, premature to take any action towards the accomplishment of our intentions. But we now consider it more than ever important that nothing should be allowed to prevent the purchase of the East Indian Railway (Main Line) by the Government in 1879, and that there should be no oversight or neglect in taking all needful preliminary measures as soon as Your Lordship shall think that the time is come for doing so. We shall shortly address Your Lordship again, separately, upon this subject, and trust that you will await our proposals before taking any particular action; but it would be highly satisfactory to us, meanwhile, to be assured that Her Majesty's Government concurs with our opinion as to what should be the

policy of our Government in this matter, and will not fail to do its part towards the attainment of our wishes in due time.

50. Connected with this subject is the suggestion, so often discussed, of the guarantee of our loans by the British Government. We submit, for convenience of reference, a compilation of the utterances upon this question by leading British Statesmen from time to time. We are sensible that weighty objections may be urged against the assumption of such a responsibility by Great Britain on behalf of British India, and that inconvenience to British India might be involved in our acceptance of such help. Under ordinary circumstances, we should have shrunk from inviting Her Majesty's Government even to consider the expediency of assisting our finances in this way. But the prospects before us are now so anxious, and the disorder of our finances may inflict so much injury indirectly upon Great Britain itself, that Her Majesty's Government might possibly see fit to take into consideration the expediency of lightening the burden of our debt in the manner suggested. If there is any reality in our impression that our present troubles arise partly from an increase in the value of gold, there would be a peculiar appropriateness in any measures adopted by Great Britain with a view to reducing the weight of our sterling debt, including our debt to the Railway and other Companies or any other form of obligations that may hereafter take its place.

51. We also think that the opportunity is a suitable one for a further consideration of the matter referred for the orders of Her Majesty's Government in our despatch No. 3, dated 5th January 1872. In that despatch we represented our objections to arrangements by which our receipts in India are consolidated with the receipts at our Home Treasury, and our disbursements in India with the disbursements from our Home Treasury, upon the assumption that R10 are equal to £1, the resultant error being accumulated in the Indian portion of our Accounts under the adjusting head "*Loss by Exchange*"; and we suggested a method of avoiding the error. At that time, the aggregate amount of the errors distributed among the various heads of our Accounts in consequence of this arbitrary system, and counterbalanced by the adjusting entry under "*Loss by Exchange*" was from R50,00,000 to R60,00,000 a year. No reply, in detail, to that despatch was received from His Grace the Duke of Argyll; but our proposals were briefly rejected by a telegram, dated 5th February 1872.

52. The entry under *Loss by Exchange*, which is the measure of the errors thus diffused through our Estimates and Accounts, is now expected to be, this year, not less than R2,80,000, and the inconsistency is becoming daily more inconvenient of continuing a system based upon the assumption that a rupee is, on an average, fairly represented by one-tenth of a pound sterling. Apart from the errors resulting in our Accounts, we believe that serious misunderstanding is fostered by our present system, and by the colour thereby given to the erroneous popular impression that a rupee and two shillings are, by some natural law, always proper equivalents.

53. We have read with great interest the able and searching Report of the Select Committee of the House of Commons on the Depreciation of Silver. As is apparent from this despatch and from our Resolution, we have, for the most part, adopted the conclusions of the Committee. On only one material point have we ventured to differ from their high authority. The Committee appear to us to have overlooked the evidence in favour of the hypothesis that the value of gold is increased at the same time that the value of silver is

decreased; indeed, there is nothing in their Report or in the evidence of the witnesses whom they examined, to show that their attention was turned to this side of the question. We have given reasons for thinking that it is important that we should carefully distinguish the effects of these two causes in producing the present divergence of the values of gold and silver.

54. We notice an error of some importance in the table printed at page xxxi of the Committee's Report. The re-exports of 1875-76 valued at £1,833,000 seem to us to be omitted from the column of exports, the excess of exports for 1875-76 being understated by this considerable amount.

55. In conclusion, we would ask Your Lordship to keep us promptly informed of all occurrences in Europe and America which may come to your knowledge bearing upon the future value of silver. We would instance a recent remittance of £350,000 worth of silver by the German Government to Calcutta, information of which reached us by a public telegram only. Our own attention will be constantly given to the important matters dealt with in this despatch, and we shall communicate freely to Your Lordship any further suggestions which may occur to us. We rely confidently upon the cordial support of Her Majesty's Government in any measures that we may find it necessary to adopt for the financial security of this Empire

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DEMI-OFFICIAL CORRESPONDENCE OF 1876 BETWEEN GENERAL STRACHEY AND MR. R. B. CHAPMAN, SECRETARY TO THE GOVERNMENT OF INDIA, FINANCE AND COMMERCE DEPARTMENT.

(i) From MAJOR-GENERAL R. STRACHEY, R.E., C.S.I., to MR. R. B. CHAPMAN, —dated 28th September 1876.

I am much obliged by your papers. The whole question of the effect of the fall in the value of silver on Indian currency and finance, as well as on the trade which is so intimately bound up with the workings of the currency and finance, is so large and difficult to deal with, that I cannot attempt to do more than give you a very brief statement of the conclusions I have come to on the subject.

To begin with, I may say that a letter in the *Pall Mall Gazette* of the 10th August, signed "An Anglo-Indian," was written by me, and fairly represents my general ideas, so far as it goes — subject to the remark that later consideration has led me to doubt, more than is expressed in the letter, the truth of the doctrines of the English economists that the result of doing *nothing* would be to send any considerable quantity of silver to India, or to lead to a natural remedy of the evils now experienced through a lowering of the local value of the rupee in India.

I am at a loss to understand why you think it necessary to *demonetize* silver in India if a gold *standard* is adopted, or why the existing silver coin should not be allowed to go on doing its duty as at present, under a gold standard, just as the 5-franc piece does in France. I can myself see no sort of reason why we should not *regulate* the coining of rupees, just as Monsieur Leon Say has done with the 5-franc piece, in combination with an open gold coinage, the material for which should be left to be supplied by the persons who require it. The only objection that can be made, so far as my apprehension goes, is that suggested in France, *viz.*, that false or illegal true-weight silver coins might be introduced, and so the regulation of the silver coinage prevented. This, however, I regard as a mere chimera. The French authorities derided it; and the present experience of England and France seems to me to dispose of the fear entirely. In India our facilities for preventing the importation of illegal rupees would be far greater than those of England and France to prevent the introduction of illegal silver coin into those countries, and here nobody dreams of it. All that seems necessary is to prohibit the importation of coined rupees, and to require all such bullion to pass through the melting pot. What any one could carry in his pocket or portmanteau would do no harm.

If you retain your existing silver coin and only supplement it by gold, so far as trade-wants call for more specie in payment for exports, the requirement of India for gold and silver in the future will be very moderate, and she can without difficulty supply herself with the gold, while the demand for silver will not, in fact, be very greatly reduced, if the silver coinage is kept up for local Indian use, as it perfectly well might be.

If you have a new gold coin, or the sovereign, made a legal tender at such a rate as would give 1 rupee = 1s. 11d., or thereabout, and only coin rupees if you find they become scarce, it seems to me that everything would go on again exactly as though no change had been made, excepting that the exchange would henceforth oscillate about the 1s. 11d. rate, according to the greater or less urgency of demand for remittances to India or England. In fact, what we want to do is simply to get the same *standard* for India as for England, and to be protected in future from the exchange value of the *rupee* being suddenly changed in relation to the *gold of England* by causes altogether beyond our control in India. Whether the exchange gets better again, or hangs at 1s. 8d., this conclusion seems to me equally obvious, though, of course, if we speedily get back to 1s. 10d., we can make our change much more easily and with much less disturbance of trade. For, of course, I do not, for a moment, say that suddenly to force the exchange up from 1s. 8d. to 1s. 11d. would not produce some shock. But the position is only one of a choice of evils, and I wholly repudiate the idea that the evils caused by doing *nothing* are a bit less due to the Government than such evils as would be caused by its doing *something*. The question is how can you get out of your scrape easiest. If India had been an independent dominion, with reasonable financiers at its head, I do not believe any such hesitation would have been felt as actually exists. We are dominated by English interests: and the English economists merely see out of English eyes, and quite fail to appreciate Indian wants or claims. The whole of the loss to India in the present case is gain to England, and, if it had been the other way, you would have heard of it long ago. What would be thought of having a silver standard in Ireland alongside of the gold in England? The absurdity is really not greater than that we are taught to respect in the case in India.

The action of the so-called "tribute" of India to England in relation to the balance of trade very seriously affects the interchange of merchandise, and quite throws out what would be the results, if the trade was simply balanced without the one-sided burden. That part of the excess of Indian exports which represents the "tribute" has no relation to the exchange value of the rupee, excepting that, in proportion as the exchange is low, the exports must increase. But the 15 or 20 millions *must* go, whatever be the state of things, and it is only the residue of the trade that follows the ordinary law of exchanges. The whole cost of the extra quantity of exports now needed to supply the "tribute," with the bad rate of exchange, has to be made good by India, and diminishes the purchasing power of the community in India to the whole extent of this cost, which, I suppose, will be for the present year somewhere about 1½ millions at *least*. This is the fine put upon India because we cannot make up our minds to stop the coining of silver.

However I suppose nothing will be done, at least for some time to come in this matter, and my personal feeling is that silver at 46d. per ounce for six months would be as good a thing as could happen to us. But it certainly looks as though that great fall was merely the result of panic, and it is not likely that my wicked wish will be gratified.

There is a great deal in your memorandum with which I quite agree, and it is chiefly when you come to apply your principles to practice that I leave you.

I quite discredit your idea that the value of *gold* has seriously changed, or caused the fall of, silver value. Your figures I consider to be quite untrustworthy, and only to show the great fall of prices due to commercial depression following the great iron and coal extravagancies. Iron rails, then at £14 now

at £5-17-6, do not in the least indicate change in gold value. The banks, here and at Paris, are overflowing with gold, and there is no one to use it. All trade is as bad as it can be. Under such conditions the comparison of prices is quite fallacious. Nor do I think your Indian prices much better for such a purpose.

Copy of a letter from MAJOR-GENERAL RICHARD STRACHEY, R.E., C.S.I., to the Editor of the "Pall Mall Budget," dated the 10th August 1876.

Every one dependent on remittances from India must long ago have become very practically informed of the great inconvenience, to use no stronger term, of the late sudden fall in the exchange value of the rupee. Taking the whole sum that has to be remitted from India to England by the Government and private persons at £20,000,000 sterling yearly, which is, no doubt, within the truth, if the fall which has taken place within the last two years is sustained, the loss will be at the rate of nearly £3,000,000 a year or about one-seventh of the total amount. This signifies that private incomes dependent on such remittances are reduced in that proportion, and that, unless some expedient be found for reducing the public expenditure of India very largely—as the Government loss would be about £2,000,000—additional taxation must be imposed to make good the deficiency. The questions that this condition of things forces on every one interested in these remittances are whether it is likely to continue or to recur; and, if so, whether or not it can be remedied. The coming debate on the Indian Budget will no doubt indicate the opinions of English economists on the subject, and also afford some indication of the intentions of the Government. The discussion will be of unusual interest, and it is to be hoped that such light will be thrown on the question as will facilitate its satisfactory solution. It is disappointing to find how little result has hitherto been obtained in the way of expression of opinion on the best method of dealing with the difficulty. Mr. Goschen's Committee have, on the whole, rather increased than diminished the perplexities of the situation: what is left unsaid so greatly exceeding what is said. The *Economist*, following the tenets of the school it represents, teaches that nothing is to be done. The *Times*, admitting the gravity of the situation, suggests the heroic remedy—if it be a remedy—of leaving private persons to take care of themselves, and of making good the whole loss that falls on the Indian Government from the class that pays land revenue, requiring them to discharge their obligations to the State in gold, at a rate that would increase their burdens by a fifth or a sixth.

Turning from the closet economists to the class of persons which is most directly interested in the actual facts, we find a very different direction given to opinion. The merchants and bankers of India, viewing the depreciation of silver with extreme anxiety, propose the suspension of the coining of silver in that country, and some authorities add the introduction of a gold currency as a proper supplement to such a course of action. The position, viewed broadly is this:—India has an exclusive silver currency, the standard of value being the rupee containing 165 grains of pure silver. The rupee is the only legal tender. Gold coins are not, in fact, current, the intrinsic value of the pieces being much in excess of their value as currency, and they are only used for hoarding or as ornaments. The relation of India to England requires that a large annual sum of money shall be paid from the earnings of India to England, partly for the purposes of the Government and partly as return on English capital invested in India, or on English industry applied there. It

necessarily follows that this payment is made in the form of shipments of merchandise, which, being sold in England furnishes the requisite sum. The merchants, who are the go-betweens in effecting this remittance, of course require Indian money to purchase the goods in India, and they are able to procure this money in two ways: First, they may buy rupees in India by bills of exchange, paying for them in sterling currency here; or, secondly, they may purchase silver here and send it to India where they can have it coined into rupees, no legal limit being placed on the coinage of silver money. The great seller of rupees in India is the Government. The sums received as revenue accumulate in the Indian treasuries, and are available for sale in London by bills of exchange, which are offered to the public fortnightly* by the Secretary of State for India. It necessarily follows that the sale of these bills for rupees is controlled in an important degree by the price of silver in London, because any one who can supply himself with silver at a price that will enable him, if he ships it to India, to have it converted into rupees at a more favourable rate than that offered by the bills, will ship silver and not take bills. The great fall in the Indian exchange has been, without doubt, essentially due to the fall in the price of silver in Europe. But so far as India is concerned in relation to the exchanges, the causes of this fall of price are immaterial. They are, moreover, evidently, to a very great extent, external to India, and not capable of being controlled by it; and the question at once suggests itself, why, when these external causes of disturbance have been found to arise, should not India endeavour to screen itself from their consequences—if, indeed, it be possible so to do without falling into other greater inconveniences?

It is of course right to enquire whether the recent fall in the value of silver in Europe is likely to be merely transient, or whether it will probably be maintained; and it might so have happened that the reply would have shown that special precautions were not required. But, as a fact, no hesitation of this sort is any longer admissible. The losses and inconveniences to Indian remitters have already been such as to show that a condition of things which may at any moment arise, by reason of circumstances (as before noticed) that lie altogether out of India, should not be continued if it can be remedied. And here it becomes necessary to ask what will be the result of doing nothing, as proposed by the *Economist* and other authorities of the same school. The consequence, no doubt, will be, as taught by them, that silver will be drawn to India in increased quantity; that exports from India will be augmented and imports into India checked; that the quantity of silver in India having increased, its value in relation to commodities will fall, and prices will rise; and at length that an equilibrium will be again established after the relative values of silver in India and Europe shall have been brought into closer proximity. If the present low price of silver is due to temporary causes, such as panic, and not to permanent derangement of the relation of supply and demand, such a course of events would, no doubt, tend to re-establish it; but if there is to be a permanent fall of value there would follow a general depreciation of the rupee in India, and therefore a corresponding disturbance of the standard of value—an evil the serious nature of which it would be difficult to overstate. Moreover, from an Indian point of view (and the necessity for thus regarding the subject cannot be too strongly insisted on) the reduction of the imports, and the increase of exports in exchange for which

* Now weekly.—R. B. C.

will be received a silver currency destined to eventual depreciation, will be an aggravation of the present position, which is already sufficiently strained, considering that the excess of exports from India over imports now amounts in value to more than £20,000,000 sterling, or not far from one-half of the gross revenues. Supposing always that the fall of value of silver is to be permanent, or to be sustained for some years, the result would be that India would in the end find that it had been led to receive payment for its exports in a debased currency, while a corresponding advantage accrued to the owners of silver who had been unable to pass off their silver coin in India at an exchange value much in excess of what it had in Europe. In short, the policy of doing nothing is entirely opposed to the interests of India, and to the advantage of those of the sellers of silver—that is, of interests not Indian. Again, the importance of preventing, if possible, the depreciation of the standard of value in India is very great; and if there were no economic arguments to support this view, political expediency would surely suffice. The heavy payments to be made by our Indian Government in England, and the obligation that rests on all Englishmen resident in India to remit portions of their income to England, and the transfer of trade profits and the like, render it of primary necessity that the system of remittance shall not be liable to such violent disturbances as those that have taken place within the last year. A continuance of the present condition of things would necessarily involve a re-arrangement of all Indian taxation and of all Indian salaries, and would be attended by such extreme difficulties as, if they were thoroughly appreciated, would assuredly lead to the most strenuous efforts being made to guard against the risk of their occurrence. Nor after the recent experience, can it be admitted that a simple return to the conditions of the past would be sufficient. Even if silver should soon quite recover its former value, the risk of being again subjected to evils like those of the last few months, by some future fluctuation of value, should assuredly not be accepted. This danger will necessarily exist so long as the standard of value in India differs from that in England, and so long as the balances of trade transactions can only be settled in silver in the one country, while they require gold in the other.

The problem of solution, therefore, is to introduce in India a standard of value which shall be readily commensurable with that of England, with which country its commercial and other transactions settled by money payments are on so vast a scale; and to place the Indian currency on a secure basis so that the fluctuations in the value of silver, which have become so excessive, shall not endanger the standard of value that has been adopted for that country. It seems probable that the required remedy may be found by adopting generally the course recommended by the Calcutta Chamber of Commerce, but with a few modifications and supplementary precautions. The first step would be to abandon the unlimited coinage of rupees on demand and to place the rupee coinage entirely under the control of the Government for which alone rupees would hereafter be struck. A corresponding restriction of the paper currency would be necessary, and the prohibition of the import of coined rupees. At the same time that the Mint was closed for silver it should be opened for gold, or, as a temporary arrangement, British sovereigns might be admitted as lawful currency at a rate to be fixed for the purpose. The intrinsic gold value of the new gold coin, or the current value of the sovereign in India, would be arranged so as to be equivalent to a gold value of the rupee of about 1s. 10½d. or 1s. 11d., which was the value before the recent great fall in the price of silver. Currency notes would be issued

against gold at the fixed rates, as heretofore against silver.

It will be desirable to follow out the consequences of such measures. The closing of the Indian Mints to silver would compel merchants either to buy rupee bills or to send gold to India, and the exchange would at once tend to settle at the rate which had been fixed for the use of gold as money in India—that is, 1s. 10d. or 1s. 11d. per rupee. Exactly the same causes that have hitherto led to the transmission of silver to India would, under the new arrangements, send gold there, and only so much would be sent as was requisite to supply the bullion requirements for more currency as transactions increased, or the old coin was lost or deteriorated, or for trade purposes. The rupee would still continue to be a legal tender as before, and would circulate concurrently with the new gold pieces. It would, however, have become a “token” coin, the value of which was regulated on an arbitrary scale in relation to the gold coin, and not by its intrinsic silver value. It might be desirable at first to fix the sum for which gold should be a legal tender rather high, so that the new coins should not be forced too rapidly on the poorer and more ignorant classes; but gold would always be received by the Government for all amounts. There could be nothing to cause any excess of silver in the country, and any deficiency would be supplied by the action of the Government as in England. There would be no apparent difficulty in maintaining the silver currency in sufficient quantity, and, as it would have a current value in excess of its bullion value, there would be no risk of its being exported or destroyed in appreciable quantities. The danger in the opposite direction of the introduction from other countries of illegal silver money has been made much of by the *Economist*. But its very small real importance is sufficiently shown by the facts of the existing British and French silver coinage, which are vastly more open to interference of this description, and yet have not sensibly suffered from it. It is the deliberate opinion of the present French Minister of Finance M. Leon Say, as expressed within the last few days, that the point seems to call for no serious discussion. The position of the Indian currency would thus become very similar to that of France (supposing the forced paper currency to be withdrawn) with a free mint for gold, and a limited coinage of silver “token” money (five-franc pieces in the one case and rupees in the other) having full power as legal tender, and a subordinate fractional currency. That such a system is perfectly compatible with public convenience is beyond dispute, and it seems eminently suited for India.

The risk of the rupee becoming over “appreciated,” on which the *Economist* dwells, is entirely removed by the adoption of the gold currency in combination with it. The difficulty of finding the gold to take the place of the silver is also imaginary, because there is no necessity for displacing any silver; and all that the gold will be required to do will be to supply that want of additional currency, however it arises. So long as the convenience of the people is best met by a silver currency, it can quite easily be supplied to them without loss to any one; and if gold is required to supplement the silver, India will necessarily enter into competition for it with other gold-using nations, and be neither less nor better able to supply itself than they. Obviously there is no necessity whatever for the State to supply gold for the currency in the future, any more than it has been necessary for it to supply silver in the past. The balance of Indian trade secures a flow of the precious metals to India, and under the contemplated system gold would certainly be drawn thither. Such measures would, it is believed, effect the transition from a silver to a gold standard without shock and without cost to the State or

loss to individuals, and would secure, so far as it is possible, the standard of value in India, which, so long as the silver standard is retained, must be regarded as in a very precarious position, though it has not yet been perceptibly affected.

(ii) *From MR. R. B. CHAPMAN, to MAJOR-GENERAL R. STRACHEY, R. E., C.S.I.,—No. 414, dated 26th October 1876.*

Many thanks for your letter dated 28th September, in connection with which I have disinterred and read again your letter to the *Pall Mall*, signed "Anglo-Indian," which had attracted my attention before.

As you say, it is almost hopeless to carry on a correspondence on such a subject at this distance, otherwise than officially; I should be very glad indeed of an opportunity of discussing matters with you in person.

You will, since you wrote, have read our Resolution dated 22nd September, and our despatch No. 368, dated 13th October. These documents express on the whole my own conclusions, though less absolutely and more favourably, in some few particulars than I should have done personally.

I am sorry indeed to find that on some essential points I can by no means accept your views—

I.—It seems to me that you ignore, throughout, the domestic consequences of raising the standard of value to *1s. 11d.*, as you propose to do, and that this is by far the most important consideration for this country. In fixing your thoughts exclusively upon the *exchange* question, do you not, in fact, fall into the very sin of considering English and not Indian interests which you charge upon us? I believe that we here have, in truth, anxiously and conscientiously avoided this sin. Of course we know that the trade between England and India is of vast importance to *both* countries; but the domestic interests of India are vaster still. Happily, I believe that the two interests are not conflicting, but in harmony; only I think that we are more likely to find out what these interests demand, by contemplating *more prominently* their domestic side. For my own part, I think that we could not, without monstrous injustice, substitute for our present unit a gold unit worth *1s. 11d.*,—in other words, require every one now under an obligation to deliver 165 grains fine silver to deliver 108293 grains fine gold. I believe that the domestic consequences of such a law would be ruinous. Your proposal to represent the proposed new gold standard by a silver currency would not, I think, to any important extent, mitigate the consequences of such a measure. I consider that proposal, for other reasons, terribly heretical.

II.—You seem to me to overlook the effect upon the value of gold, of the substitution of a gold for a silver standard in British India. This effect, again, would not, I think, be materially mitigated by the adoption of the device which Smith and you advocate, and which seems to me so inadmissible. We have shown, in our despatch, though less confidently than I should have put it, that if India adopts gold no other country can retain silver,

and that, for years to come, at least, the won gold would not suffice for the world's use, without revolutionary consequences, and without the most disastrous addition to the weight of India's foreign obligations.

III.—I cannot accept your summary rejection of the evidence afforded by our tables of prices of the recent increase in the value of gold indicated, as I have shown, by the *à priori* evidence, almost as strongly as the fall in the value of silver. Prices are simple facts and cannot be ignored. To say that *iron* is fallen from £14 to £5-17-6 is only to say, conversely, that the value of gold measured in *iron* is risen 240 per cent.; and to say that there has been a fall in the prices of a large proportion of the staple articles is only to say, in other words, that the value of gold measured in a large proportion of the staple articles is risen. It is a simple question of fact, not of deduction at all, and cannot be got rid of by any summary means. When you come to draw inferences from the facts, or to build a policy upon them, then, no doubt, it becomes of the highest importance to ascertain whether or no they are permanent, and therefore to examine all their causes and accompaniments. But whatever these causes may be, they do not alter the facts. The Government of India has, very rightly, used the facts with the utmost caution; but surely they are *prima facie* strong evidence (may I not say *absolute proof*?) that, as yet the value of silver is fallen very little save in relation of gold, and that the value of gold is risen? at least I can form no conception of what is meant when I am told that the value of gold is *fallen*, while yet I find that gold will buy *more* than before: the two conditions appear to me to be incompatible. Nor, again, when I find that a given quantity of gold will buy more and more commodities, does the obvious conclusion that gold has risen in value appear to me to be in any degree invalidated by the fact that, by some strange congestion of trade, there are vast and unprecedented accumulations of gold at the great centres of trade, *e.g.*, the Banks of England and France. Are not these accumulations, rather, in fact, an indication of a rise in the value of gold, the owners of which are disinclined to part with it,—a symptom, in short, analogous to that of hoarding?

IV.—But I demur to being called upon to *prove* that silver is not fallen in value, or at least that the whole divergence of the two metals is certainly not due to a fall in the value of silver. I say the *onus probandi* lies absolutely upon those who advocate an *ex-cathedra* operation intended to enhance the value of the standard. Produce the evidence, in the teeth of our price-tables, upon which you depend for establishing the fall in the value of silver, which must be demonstrated beyond question before the Government could call upon debtors to agree to pay their debts by a different standard than that which exists. Whether you raise the fine silver in a rupee from 165 to 198 grains, or change the unit from 165 grains of fine silver to 10·8293 grains of fine gold, the effect, I say, is exactly the same, domestically, as if the Government were to decide

that every one who owes R10 should pay R12 or thereabouts. It is important to understand clearly in such transactions what we are doing. I say that if the circumstances would justify the Government in passing a law entitling all creditors to recover R6 as now existing instead of R5, they would justify an enhancement of the standard by 20 per cent., and *not otherwise*.

V.—I am astounded that you should propose such a tremendous heresy as a *permanent* divorce between the standard and the currency. Surely this is nothing in the world but an inconvertible currency, limited, it is true (though I observe that you would not even *limit* it absolutely), but still *inconvertible*. If we are to go in for an inconvertible currency, why should we go to the useless expense of having it in *silver*; surely it would be only common sense to go to *paper* at once? I have seen plainly that we must *go* through a period of inconvertible currency of silver currency with a gold standard; but I have always looked upon this as an evil of the first magnitude from which we should use every exertion to escape at the very earliest opportunity. It startles and staggers me that you should say that such a man as yourself, to say nothing of the rest of the powers that be at the India Office, should have been seduced into thinking otherwise for an instant. You will see what we have said about France in our despatch. If Pate Leon Say has said otherwise, (which I do not think that he has done) I dare to say that it will be quite impossible for France to continue to allow one-third of her full-legal tender currency to be of nominal value only. Why should she? In what respect will her 88 millions of silver be better than paper? Will it not, on the contrary, be a source of constant danger to her, much greater danger than *paper*? Depend upon it, France must demonetise that silver or re-admit the alternative standard. If she does not you will not find a gold-piece circulating in France before long. Have you not altogether underrated the volume of our silver currency too? A true silver subsidiary currency must, I maintain, be treated as a note currency, *i.e.*, it must be issued only in exchange for gold, and the State should be compelled to give gold for it, at convenient centres, on demand, everywhere. Only on these conditions will a silver subsidiary coinage be on a really sound footing; and, upon this footing, even India will not want, I believe, more than 30 crores at the outside, if indeed she wants as much. You cannot seriously think we could *for a permanent* avoid calling in the 170 crores of rupees that we should have in excess of our wants. Nor can I seriously believe that an accurate thinker like yourself would deliberately consent to entrust to any Government on earth the power to issue *token coinage* at its discretion *to pass as full legal tender*. No human Government yet existed who could be trusted with such a power.

VI.—I quite agree with you that under no circumstances is there reason to expect that silver will flow into India, unless indeed we go on *borrowing*. Smith has entirely overlooked that the great

balance in our favour in the past (excepting only the temporary exaggeration of the value of our cotton by the American Civil War) was entirely due to our *borrowing*; and so, in the future, unless we *borrow* on a much larger scale than is at all probable, there will be no balance at all to come in treasure. I do not of course mean to say that none will come, because there will always be some demand for the precious metals, I suppose; but what will come will be in substitution for some other commodities or must be paid for by additional exports. Smith's supposition that because we have taken 166 crores in the last quarter of a century, we shall take 166 crores in the next, is *wild* in the extreme. The argument is all the other way. I believe that the 166 crores have *saturated* us with coin, and that there is not the slightest foundation for Mr. Mackenzie's and Colonel Hyde's evidence to the contrary. How absurd, by the way, to examine on such a point a witness (Mr. Mackenzie) who left India in 1851? All the evidence that I am aware of goes to show that there is *now* a superfluity and not a deficiency of silver currency.

VII.—I cannot at all follow your argument that the Government should protect the people of India against the anticipated depreciation of silver by preventing its importation, unless of course we intend to destroy its value by giving up the silver standard. But for this, I fail to see why any one should buy silver for more than it is worth, or why the Government should interfere in the matter at all.

VIII.—Nor do I at all agree with you that England gains and India loses by our present inaction. Surely you trip here? You say "gold is fallen in value and not risen;" and yet you argue that in order to procure the same quantity of gold wherewith to discharge our foreign debt, we have to send *more* commodities than before. Surely your position is wrong one way or the other. *If gold is fallen* in value, surely we have to send, for a given quantity, *fewer* and not *more* commodities? If you are right and gold is falling in value, we shall have no difficulty in getting out of our scrape, for our great foreign debt will be *reduced*. The fact is that, as worked out in our despatch, India is more interested in the value of *gold* than in that of *silver*. If silver falls we have to settle it at home—if one class loses another gains; but if *gold rises*, it is a dead loss to the country; if gold falls, a clear gain. I shall be too thankful to find that you are right and that gold is fallen; in other words, that we can discharge our great debt at home by fewer commodities. I quite believe that this will be so *hereafter*, but I can see no evidence of it at present, and no signs of its near advent.

Pardon this long screed, which you will perhaps not mind showing to Sir L. Mallet, as containing some of my ideas on this vital subject.

(iii) From MR. R. B. CHAPMAN, to MAJOR-GENERAL R. STRACHEY, R.E.,
C.S.I.,—dated 2nd November 1876.

I am sensible that my letter, dated 26th October, must have appeared

to you too controversial, too much confined to a refutation of your own panacea, and that you may have received the impression that I have no suggestion to make on my own part for our extrication from our present evil case.

2. The position is indeed in my judgment very difficult; because the future depends much more upon what other nations may do, than upon what we can do ourselves, except in so far as we can influence other nations. Still it would be an important point if we could only ascertain with some unanimity what would be the best course for us that events could take,—at what object we should aim. I should be glad if, as the fruit of all the weary hours of study and thought which I have given to this subject, I could contribute in any way to a solution of even this part of the problem.

3. An ideal system of currency would be—

- (1) the same standard for the whole world;
- (2) the value of this standard invariable, and neither too high nor too low;
- (3) and its material suitable.

4. The second of these conditions is, from the nature of the case, impossible; an invariable standard is incompatible with the very conception of value. All that we can look for is a standard that shall keep near to the same point in an imaginary scale of value.

5. Recognising the fact that we cannot attain to a fixed standard, our next conclusion is that, notwithstanding that the appreciation of a standard must add to the whole national property, and its depreciation must diminish it, the depreciation of a standard is less mischievous than its appreciation. This conclusion is the result of the world's experience, and is not, I believe, disputed. The reason of it appears to be, briefly, that by the depreciation of the standard the poor and indebted gain, and the rich and the creditor class lose; while by the appreciation of the standard, the rich and creditor class profit, and the poor and indebted lose. The poor and indebted are much more numerous than the rich and creditor class, and these can bear loss much better than those.

6. This conclusion may require modification in one aspect. The principle of it is true of corporate communities as of individuals. If a nation is rich and has claims upon other nations fixed in its own standard, the depreciation of the standard means a reduction of those claims and a national loss with a corresponding gain to the indebted nations; its appreciation means a national gain and a corresponding loss to the indebted nations. It is evident that the interest of the nation as a corporation may conflict with the interest of the majority of its members.

7. Thus to take the example of Great Britain. Almost all civilised nations are more or less indebted to Great Britain, being in the same case as India, which owes Great Britain perhaps 18 or 20 millions sterling a year. As a vast amount of the debt thus owing to Great Britain is fixed in *gold*, any depreciation of gold must clearly benefit the indebted nations at the expense of Great Britain, and, *vice versa*, any appreciation of gold must benefit Great Britain at the expense of the indebted nations. I have stated in the 5th paragraph, as a generally accepted conclusion, that the depreciation of a standard is less injurious to a community than its appreciation. It may be open to question, though probably it is not so open, whether this axiom is also true of the whole world when applied to international transactions. If it is true, then it would appear that an appreciation of gold, while benefiting

Great Britain internationally, and adding to the whole national property, might yet be injurious to her domestically and it might be difficult to decide whether the international and corporate benefits compensate the domestic injury.

8. It seems quite clear that the effect upon any community of any change in its own standard of value is quite different from that of any change in any other standard of value according to which it may have fixed obligations.

9. A change in the standard of value of a community may cause painful disturbances of the contract relations between the various classes of the community, and may necessitate difficult, possibly even dangerous, domestic readjustments; but it can hardly cause any serious loss of the national resources as a whole. It seems to me that such loss would be—

I.—In the case of a fall in the standard of value—

- (a) the diminution of the value of the material of the standard in the possession of the nation;
- (b) the reduction of the value of debts due by foreigners to the nation as fixed in its own standard;
- less (c) the reduction of the value of debts so fixed due by the nation to foreigners.

II.—In the case of a rise in the standard of value, the national loss would seem to be, conversely,—

- (c) the increase of the value of the national debt to foreigners expressed in the national standard;
- less (a) the addition to the value of the material of the standard in the national possession; and
- (b) the increase of the value of any debts due by foreigners to the country and fixed by the national standard.

In India (c) would probably be always much more than (a) and (b) together; and it would seem that a depreciation of silver would *prima facie* cause no loss of the national resources of India as a whole, and that an appreciation of silver would be worse for India than its depreciation.

10. As I have repeatedly argued (I do not know whether I may assume that you agree with me), an appreciation of gold would be an injury to India as increasing the drain upon her resources; its depreciation a gain, as diminishing the drain upon her resources.

11. Thus far it seems to me, as I have already said, that India is more concerned with the value of gold than with the value of silver; that she would certainly suffer greater injury from an appreciation of gold than from a depreciation of silver.

12. I do not mean to press this view so far as to say that it would be better for the interests of India that gold should fall in value than that it should remain steady. Certainly, at least, it would be unjustifiable for India to endeavour, for any selfish purpose of her own, to depreciate the standard in which much of her foreign debt is fixed. But I do distinctly mean to say that India is not only justified in doing, but bound to do, nothing calculated to enhance this standard, and everything that in her lies to prevent such enhancement.

13. It would in my judgment be undoubtedly best for the interest of the whole world that there should be one common standard of value ; and as no such standard can be unchangeable, that it should be rather depreciating than appreciating. The first question is whether the establishment of such a standard can be hoped for, and what it should be. I have given reasons elsewhere for the opinion that gold would not prove to be such a standard, at least not for many years to come. If the whole world should adopt gold as a standard the consequences would be, in my opinion, so great an appreciation of this metal, that, apart from all other evils, the indebted nations would become insolvent ; in short, the thing is at present impossible. The only objections to this view which I can conceive are—

- (1) That in order to have a *gold* standard, a gold *currency* is not necessary, so that the whole world might adopt a gold standard without any more gold than at present.
- (2) That the development of expedients for dispensing with the use of a metallic currency is such that the same amount of gold would now do the work of the whole world, as has hitherto sufficed for the want of only the few countries whose standard and currency are already gold.

14. The first objection is of the same character as your proposal and Colonel Smith's that we might have permanently a gold standard in India without a gold currency. In my letter of the 26th October I have denounced this view as an outrageous heresy. I need not travel again over the ground which I then took. I would merely say further, now, that the objection proves too much. If a gold *standard* is permanently possible without a *gold* *currency*, why should Great Britain or any other country endure the needless waste of a gold currency ? Why should not the whole world betake itself to paper with a "*cours forcé* ?" and what then would become of the value of gold ?

15. Gold and silver derive their value altogether from the demand for them for this very use as currency, if there is no occasion so to use them, if, as some wild theorists argue, and as even you seem to argue, there is no occasion for the currency to represent the standard by any value of its own at all, then, as soon as this is perceived, the value of the precious metals will collapse, and they will be no longer fit to serve as standards of value. The argument is curious ; it is only because the precious metals must be used for currency that they have that value which qualifies them to serve as standards.

16. As to the second objection, however much expedients for dispensing with the use of metallic money may be developed, there must clearly be a point beyond which such expedients cannot go. The Irishman who thought that, by depriving his horse of an oat a day, he would gradually accustom him to live upon air, discovered by practical experience that there was a fallacy somewhere in his logic ; and so with this currency question : it may be difficult to say to what point the stock of standard metallic currency necessary for the want of a country can be reduced without financial collapse ; but it cannot be doubted that there is such a point, and indeed that there is not wanting evidence to show that the reduction has in some countries been already carried nearly to, if not below, starving point. It may be that on the whole even Great Britain loses by consequent commercial crises at brief intervals, more by her economy of the standard metallic currency than France does by the vast dead weight that she carries in this form.

17. But if gold would not serve for a cosmopolitan standard of value, is

there any other standard possible or conceivable? I believe myself that, strange as it may appear at first sight, silver would be a better cosmopolitan standard than gold, but that even silver would fail by reason of its insufficiency. My own conviction is that the bi-metallurgists are, after all, right, and that the proper cosmopolitan standard would be silver, with gold as an alternative at a fixed rating.

18. The usual objections to such an alternative standard are of great, if not of overwhelming, weight as against its use by a single country. To give to the debtors of a single country liberty to choose whether they will pay their debts in one metal or the other, would be at least unfair in the case of all previous contracts, and might go far to deprive the country for the future of any proper standard at all. But the case would be very different if the system applied to the whole world, for then, clearly, the relative values of the two metals could never vary by more than a hair's breadth. The value of both the metals arising entirely from their use as currency, it follows that, if the whole field of the world were open on fixed relative terms to both, one could never lose or gain value much without immediately causing the same effect upon the other. Such a standard, if applied to the whole world, would in truth be not really an *alternative*, but a *composite* or *compensatory* standard, the value of which would be the value of both metals as a whole, a value obviously less likely to vary than that of either one of them. Moreover, the value of the two metals together is more likely to fall than to rise.

19. Indeed, it is perhaps a somewhat weighty objection to such a compensatory or composite standard, that the material of it may be as much too abundant as either gold or silver alone would be too scanty. I am not prepared to deny that there is some substance in this objection; but I can conceive no standard to which one objection or the other would not apply, and, for reasons already given, this objection is much less important than the other. Speaking generally, there seems good reason to think that if there were but one standard in the world, some considerable appreciation, and a much more considerable depreciation, of it could be borne without attracting any attention or causing any real inconvenience or any substantial injustice.

20. I think, then, that if it were possible to establish silver as the standard of value of the whole world, with gold rated as equal to $15\frac{1}{2}$ times its weight in silver, or at any other suitable relation to silver, the whole currency difficulty would be solved, and I think that India or any other country interested would be well justified in promoting the adoption of such a cosmopolitan standard.

21. But if you ask me whether I think that any such cosmopolitan standard is really practicable, I am obliged to answer that I do not. There is only one country that would be able practically to induce the nations to agree to such a standard, and she could indeed compel such an agreement if she pleased. I speak of course of Great Britain. But I despair of Great Britain understanding that such a cosmopolitan standard would be to her advantage; though I am sure that, all things considered, it would be so, notwithstanding her large claims upon other nations now paid in gold. Of course no nation can be expected to adopt, from mere consideration for other nations, any course that she does not think for her own interest!

22. What, then, is practicable? Next to a cosmopolitan standard, the best thing would be a standard used by as many nations as possible. Even though Great Britain and Germany should hold aloof, the adoption of a silver-gold standard by all the rest of the world would go far towards the accomplishment of the object in view, *viz.*, the establishment of a stable and suitable

standard. If the use of gold as a sole standard were confined to Great Britain and Germany, its value could not rise; and the admission of silver as the standard of the rest of the world, conjointly with gold, would, I believe, secure the value of silver and gold alike against undue depreciation.

23. Is it possible to obtain an alliance of this kind? Doubtless it is a daring scheme and may seem wild, to the limits of insanity, but still there are reasons why it is not altogether beyond hope:

- (1) The interests of all the indebted nations in this matter are the same, *viz.*, that the value of gold shall be depreciated rather than appreciated. You will find the list of these nations on the 12th and 13th pages of Seyd's "Fall in the Price of Silver." America, with her usual acuteness, has for some time past begun to perceive *à* *ter* interest in this matter, and even gone the length of seriously discussing the idea of adopting a silver standard and currency. She is the only one of them all that, at the moment, could help us much; but the support of the others also would be very important.
- (2) France among the wealthy nations has great interests in the same direction. Happily or unhappily for us, she holds 88 millions sterling of silver, and although her debt is held at home, it is heavy. Moreover, a strong party among the French economists still advocates the alternative standard. There is certainly room for negotiations with France.
- (3) It seems to me that France, America, and India ought to agree upon a common course of action, and that if they did so, important results would follow to India.

24. I confess that I contemplate with dismay the consequences to India if we are driven to adopt a gold standard and a gold currency. I have said, indeed, that in my judgment we cannot dream of doing permanently without a gold currency if we have a gold standard. But I perceive that we might be long indeed before we could attain to a gold currency, and that the country would be sentenced indefinitely to the intolerable evils of an inconvertible currency, accompanied by the rapid appreciation of the standard in which her great debt is due.

25. Here, then, is the upshot of my investigations so far:

- (1) The best thing that could happen for India would be the adoption by the world of what I have called the compensatory or composite silver-gold standard.
- (2) The next best thing would be that as large a section of the world as possible should unite in the adoption of this standard.

The first desideratum is, perhaps, absolutely out of our reach. The second is not so absolutely beyond hope; and I think that it is at this that we should aim, and that nothing short of this will really help us out of our difficulty.

26. I know that you will give patient consideration to what I have said, even though you may not find it convincing. I am myself strongly of opinion that there is no sound alternative to the course I have thus recommended.

(iv) FROM MAJOR-GENERAL R. STRACHEY, R.E., C.S.I., to MR. R. B. CHAPMAN,—dated 28th November 1876.

I have to thank you for your two letters. I think it doubtful whether I can take on myself to prepare a complete essay on the subject of Indian currency; and without something of the sort it would not be easy to trace out the way in which our divergence of opinion arises in a complete way.

But on one important point the cause of difference is apparent enough; and, as it lies on the surface, I can deal with it by itself. You say it is a pernicious heresy, or something of that sort, to propose a gold *standard* without a gold *currency*, and go on to argue that, if we take the standard we *must* replace the silver with gold also. Now, without going into a theoretical discussion on such a point, I at once refer you to *facts*. In Scotland one-pound notes are universally used in preference to, and in practical exclusion of, gold coin. If dirty, very dirty, pieces of paper can thus become the chief element in the circulation of so highly educated and thoroughly practical people as the Scotch, why may not silver money remain in circulation in India on as favourable terms? The reason that the one-pound note is accepted, as it is, in Scotland, seems to be that the people are accustomed to it; that it has been judiciously limited in its issue to what is really wanted for the convenience of the community, and that, in practice, the persons who use it, find that it will *buy as much as a sovereign in gold in the places where they have to use it*. Any one who takes a Scotch one-pound note to Bristol will find that it has *not* retained its purchasing power, and he will abstain from taking such notes out of Scotland. But, for all this, the Scotch note

is a representative of a value based on a gold standard. A somewhat analogous state of things exists in France. The 5-franc silver pieces are received at par with gold coin, though they are intrinsically less valuable, and though no one can demand gold coin in exchange for silver coin. If India had a rupee silver currency based on a gold standard, it would be placed, in respect to such coin, just in the same position as Scotland is as to its one-pound notes, and France to its 5-franc silver pieces. The rupee might be comparatively worthless for *export*, though it should retain its full exchange value for home use.

R. B. C.

I believe the present state of the French coinage *quoad* the silver 5-franc pieces to be absolutely unsound, and that it cannot last. But a coinage consisting only or chiefly of silver 5-franc pieces representing gold would be a very different affair.

R. B. C.

It seems to me that you have adopted your conclusion, that the gold standard *must* be followed by a gold coinage, from omitting to give proper weight to the circumstance that the *export* value of coin is of very secondary importance, and may (as in the case of Scotland) have no effect at all on its *domestic* value.

I do not agree. The value of a Scotch one-pound note is real.

R. B. C.

If silver rupees were frequently required by all classes of society for the purpose of making remittances to foreign countries, the position would possibly be one that would be incompatible with a system such as we have proposed, and the public convenience would in such a case demand a larger gold currency by help of which the needful external payments could be made. But we know that there is nothing approaching to such a state of things in India, and that in fact the remittances of bullion from India are very rare

and on a small scale. For my present purpose, the cause of this is immaterial.

In fact, when we talk of changing the standard in India to gold, we mean not that we are going to *alter** the value of the rupee, but simply that we refuse to allow any more rupees to be made with silver at a cost, say, of 1s. 8½*d* in gold, and to be made nominally in gold at a cost of, say, 1s. 10½*d*. We argue that, from causes which are irrelevant to our discussion, it has suddenly become possible to make for 1s. 8½*d*. a rupee which two years ago could only be made for 1s. 10½*d*.† and that we find it

R. B. C.

that we require that they shall

† You omit the important question whether the present 1s. 8½*d*. is not really as valuable as the old 1s. 10½*d*.

R. B. C.

inconvenient to permit this, and determine to stop it. It is wholly an Indian question how we regulate our rupee, and we shall do it in Indian interests wholly. If we allow rupees costing those who make them (and virtually import them from England) only 1s. 8½*d*. to be brought into the country

‡ Why? Who will compel people to take more than they want?

R. B. C.

§ Who compels you?

R. B. C.

compelled§ to sell rupees at 1s. 8½*d*. for which we could get two years ago 1s. 10½*d*. solely because the cost of silver in the London market is less. We do not desire to make it *more* difficult to supply rupees to India than it was before the fall in the value of silver; but we must take steps to prevent the violent changes in the sum we can get for our rupees that arises from great

|| Why of silver, and not of gold.

R. B. C.

whole of the arguments that apply to the Government in relation to its transactions apply equally to that very important class of persons who have to make payments in England from India. These are the persons who supply English capital and intelligence to India, and to subject them to the uncertainties attendant on the present system of coining rupees is to discourage them greatly. To the people of India, as a whole, the process of introducing *cheap* rupees in exceptionally large quantities is simply equivalent to bringing about a general depreciation of

¶ Certainly, if possible.

R. B. C.

prevented, if possible.¶

There is no reason at all to suppose that the adoption of the gold standard will interrupt the natural and healthy flow of capital to India; on the contrary, it will rather aid it, by removing the financial inconveniences due to the silver standard.

I am unable to see how such measures as these should affect the

The reason is that you cannot take these measures without *ipso facto* raising the value of every existing rupee to that of the new standard which you introduced.

R. B. C.

domestic value of the rupee, or why any one should find it *necessary* to have gold coin on account of such changes who got on without it before unless it be one of the people who wishes to introduce more money into India, and he *ex-hypothesi* gets his gold.

So far as I can see, there are only three courses open to the rupee after the gold standard has been adopted: *1st*, it may remain unchanged in domestic value; I have no concern with the *export* or *bullion* value: *2nd*, it may become more valuable: *3rd*, it may become less valuable.

It can only become *more* valuable by the supply not being sufficient to meet the demand. This must be remedied by additional coinage. A completely automatic process can be adopted to prevent this *appreciation* of silver. Let it be declared that the Government will always give in exchange

* At what rate? Obviously this rate will hereafter regulate the value of your silver coin.

R. B. C.

unchanged. The converse of this rule will prevent the depreciation of silver.

† Quite so, but your unit of value regulating every contract, past as well as future, will, hereafter, be the new gold unit. The vital question is, will this be just to debtors? Will it not revolutionise the relations of society?

R. B. C.

said, the simultaneous withdrawal of the gold given in exchange, which will pay for the silver for coinage, will prevent any excess in the total amount of currency arising from the issue of silver.

The Secretary of State would sell his bills for gold or silver;† at the

‡ In omitting to fix the rate, you omit the essential point of your proposal.

R. B. C.

responding *withdrawal of gold*.

It seems probable that no such change of the habits of the people will take place as would lead to any sudden desire to get gold instead of silver coin, such as would cause a depreciation of silver of a fanciful nature. Any collapse of business which affected the country on such a scale as to make the currency generally redundant is not a very likely thing to happen. We know that the additions to the coinage have been going on steadily for many years and it is more than likely that the stoppage of the silver coinage for a time would suffice to meet any tendency to excess.

I have thus written more than I had intended when I began and I will not go on any longer, except to say that I cannot think it worth while to talk of joint action with other nations as long as England holds the sort of opinions commonly received here on these subjects. Even to the limited extent you name, I don't think it in the least possible. Nor am I able to

It differs *toto cælo* because I fix a rate and allow free coinage of either metal. But I quite see the extreme difficulty of any international agreement; and that in its absence we may be compelled to go to gold at all hazards.

R. B. C.

see that it would be particularly useful to India. For domestic purposes we can have a gold-silver currency, such as you speak of, and which does not really differ much from what we desire, whenever we like to take it. And for external use it seems to me that it is a matter of indifference what we do; our bullion transactions are so small.

What we require is protection against the depreciation of our coin by the action of the world outside of India—protection, I admit, against that

which we have unfortunately done ourselves, or have armed others with the power of doing, while we have not been wise enough or courageous enough to deprive them of the power when it began to be exercised to our injury.

That silver is again going up in value is good luck no doubt, if it will go up high enough again; but if it sticks where it is, it will rather be an additional difficulty, I think. However, whatever happens, I am equally satisfied that we have to get a gold standard as soon as possible, without a gold coinage* however, other than one that comes into existence by slow degrees.

* This is what I believe to be out of the question. We cannot, ultimately, dispense with a gold coinage, or avoid withdrawing our existing silver coins. This loss must be borne: whether by the tax-payers or by these who chance to hold the coins, is a subsidiary question, and, looked at broadly, comparatively, of minor importance.

B. B. C.

But every one knows that the power of converting it is there. The value of the paper depends upon this knowledge.

B. B. C.

retaining its par value with the standard; but the converse does not hold. The criterion in the downward direction is the relation between the supply of the token money and the demand for it. The evidence of this in fact, is complete. French paper money for the last two or three years has been inconvertible, but has remained at par with gold. The 5-franc silver coins the same. So the limit of depression of value of inconvertible paper is regulated by the degree of excess issue. Quite lately, for instance, Austrian paper money inconvertible had a much better exchange value with England than the rupee, the nominal intrinsic value of the rupee and Austrian ideal silver florin being considered. The export value of the rupee was depreciated for a time by reason of the facilities given by our coining law for making rupees with cheap silver. No such facilities existed for making Austrian paper.

I therefore hold that, so long as the total quantity of rupees current in India is not in excess of the wants of the country, there will be no depreciation, whether the standard is silver or gold, and that the standard, in fact, does not affect the question.

Again, I object to your expression, to the effect that the Mint Law will be violated in a dishonest way by changing the standard, or that the legal regulation of the quantity of silver in the rupee had any other intention than to secure a permanent domestic value to the coin. It certainly

Can you guarantee gold against fluctuation? What other standard is possible than a fixed quantity of some substance?

B. B. C.

was never contemplated that a fixed quantity of silver having a constantly fluctuating value should be taken as the legal standard coin. Experience shows that silver by its fluctuations in value can bring India into serious financial trouble under the existing Currency Law, in consequence of our large obligations to pay gold in England; and we claim the right to get rid of the inconveniences thus caused by closing the door to the importation of silver rupees, and regulating the cost of the rupee to those who want to import it, in relation to gold, which is the metal used for the standard of value in external transactions of India, on which we are practically dependent. The object in view cannot be attained by altering the quantity of silver in

• Which you cannot stop, nor can you stop fluctuations in the cost of supplying gold *anyhow*.

R. B. C.

the rupee, because with every fluctuation* of the cost of silver in England the cost of supplying rupees will continue to vary, *in relation to gold*, which is the thing to be stopped.

India, its Government, trading community and people are in the position

I own no distinction between rupees and silver in this matter; and, though it is doubtless an evil that the standard unit of value should be depreciated, it would be a much greater evil that it should be appreciated.

R. B. C.

interests of India are not such as I state, I shall have no ground to stand upon, and shall be prepared to let silver take its own road. But you do not argue this.

of a corporation that owns all the rupees in the country. At present any one can get rupees introduced as bullion, thus forcing down the selling value of the rupee reckoned in gold, which it is to the interest of the corporation to maintain, though *individuals* have an interest in the opposite direction. If you can satisfy me that the general

(v) *Reply from R. B. CHAPMAN, Esq.*

I am sorry to say that I cannot at all agree with your letter of November 28th; but it is impossible for me at present to answer it at length. I will only remark (1) that I can admit no analogy between the convertible and rigidly (arbitrarily) limited Scotch notes and the inconvertible metallic Indian notes which you contemplate; (2) that I consider the existing state of the French *currency* absolutely unsound: the silver 5-franc pieces are, in fact, here also, *inconvertible notes*; I do not believe that they can be maintained unless France reverts to the compensatory standard; (3) that I do not believe in the distinction which you would draw between *domestic* and *foreign value*. Surely value is cosmopolitan, not local, so long of course as ingress and egress are free. Your domestic value would be entirely *artificial*, and, therefore, most dangerous. The real question of principle, however, remains to be argued,—“What are the objections to a permanently inconvertible currency?”—for this is what you advise. I have no time now to, as you say, write an essay upon it, which, to be complete, must probably be long; but I will just say that, to my mind, your proposals violate the first principle of a sound system of currency, which is that the State shall not interfere at all, except in order to save trouble and promote the public convenience, to certify that the thing is what it professes to be: that, *e.g.*, the disc of gold known as a sovereign does contain 113·001 grains of pure gold. I do not at all believe that our currency troubles are over, though they may not recur this year, and, sooner or later, I expect to have to grapple with you and Sir Louis Mallet and Colonel Smith more closely and completely upon the subject.

XXXI.

(NOTE DATED 9TH FEBRUARY 1877, SENT TO THE SECRETARY OF STATE WITH DESPATCH NO. 49, DATED THE 9TH FEBRUARY 1877).*

I.—Effect of the fall in the price of silver on trade and remittances and on prices.

The fall in the value of silver measured in gold dates from November 1872. For 22 years before that date, the price in London of an ounce troy of standard silver had never been below 60*d.*, and for 18 years more, it had never been below 59*d.* In the calendar year 1873, the average price was 59·22*d.*, the lowest price (13th November) being 57½*d.* In 1874, the average price was 58·37*d.*, the lowest price (31st December) being 57½*d.* In 1875, the average price was only 56·76*d.*, the lowest quotation being (on the 3rd June) 55½*d.* In 1876, the average price fell to 53·08*d.*, the lowest quotation being (8th July) 47*d.*; sales were reported even as low as 46*d.* The recovery from that lowest depression, though it may be temporary, has been rapid; the highest point since attained being (15th January 1877) 58½*d.*

The statistics of the Foreign Trade of India (exclusive of treasure) during this period are as follows (in crores and lakhs of rupees):—

From 1st March to 30th April.

	1873-74.	1874-75.	1875-76.
Exports	54·96	56·31	58·04
Imports	31·64	34·64	37·07
Net Exports	<u>23·32</u>	<u>21·67</u>	<u>20·97</u>

From 1st April to 30th November.

	1873.	1874.	1875.	1876.
Exports	32·28	34·09	35·90	37·93
Imports	20·11	22·23	22·64	22·52
Net Exports	<u>12·17</u>	<u>11·86</u>	<u>13·26</u>	<u>15·41</u>

These figures show a slightly accelerated growth of the export trade, and an interruption of the growth of the import trade, the result being, especially in 1876, a considerable increase in the value of the net exports. It is to be remembered, however, that important alterations of the tariff values and of the customs duties were made in the middle of 1875, the effect of which upon trade it is difficult to discriminate. But, probably, the interruption of the growth of the import trade may be attributed, in the main, to the depreciation of silver relatively to gold.

* This was a small despatch forwarding the note.

The silver prices of imported goods in India, as will be seen presently, have not risen; and the circumstances would appear to have been unfavourable to importers. It is understood, however, that on the whole, the import trade has not latterly been unprofitable. The total value of cotton manufactures (the most important of Indian imports) imported into India in the first eight months of 1875-76 shows no decrease as compared with earlier years. The figures are as follows, in rupees, omitting 000 :—

1st March to 30th April.

1873-74.	1874-75.	1875-76.
15,15,57	16,26,36	16,42,89

1st April to 30th November.

1873.	1874.	1875.	1876.
11,84,10	12,96,55	11,89,70	12,18,51

The increase of exports is the more remarkable in that it is contemporaneous with a serious contraction of the value of exports of raw cotton, the most important of Indian exports. The figures are as follows (omitting 000) :—

Value of Raw Cotton exported from India—

From 1st March to 30th April.

	1873-74.	1874-75.	1875-76.
Cwts.	4,600	5,600	5,010
Value in Rupees	13,21,62	15,25,73	13,25,90

1st April to 30th November.

	1873.	1874.	1875.	1876.
Cwts.	2,977	3,652	3,733	3,254
Value in Rupees	8,89,93	9,98,46	10,09,32	8,16,32

The following table shows the exports the value of which has increased in 1876; the values of the same exports for the last three complete years are prepared. The development of the exports of *cotton goods, wheat, seeds, sugar* and *tea* has been favoured by the fall in sterling exchange. The export trade of the past year is stated to have been very profitable to all concerned, including the producers.

Value of Exports which show improvement in 1876 compared with 1875.

[In Rupees, omitting 000.]

Articles.	DURING WHOLE YEAR, FROM 1ST APRIL TO 31ST MARCH.			DURING EIGHT MONTHS, FROM APRIL TO NOVEMBER INCLUSIVE.			
	1873-74.	1874-75.	1875-76.	1873.	1874.	1875.	1876.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<i>Cotton, Manufactures of</i>	52,26	50,14	65,90	33,56	32,50	41,04	55,54
<i>Coffee</i>	1,48,75	1,30,53	1,62,70	60,07	63,86	58,63	61,03
<i>Indigo</i>	3,55,53	2,57,63	2,87,92	65,26	33,32	31,78	46,19
<i>Wheat</i>	82,76	49,04	90,10	39,88	38,67	65,58	1,32,65
<i>Hides and Skins (dressed or tanned).</i>	63,47	50,53	1,19,01	44,98	32,24	73,99	95,24
<i>Jute (Raw) and Gunny Bags</i>	3,63,26	3,48,03	3,23,65	2,19,74	2,34,16	1,79,82	2,31,55
<i>Opium</i>	11,34,19	11,95,70	11,14,84	7,20,57	7,85,97	7,31,47	8,38,36
<i>Seeds</i>	2,36,14	3,28,59	5,46,20	1,51,29	1,88,75	3,42,79	4,04,43
<i>Sugar</i>	22,78	31,92	25,38	16,34	25,64	30,76	41,49
<i>Tea</i>	1,74,29	1,93,74	2,16,64	1,17,54	1,22,53	1,42,71	1,85,11
<i>Wool (Raw)</i>	98,83	95,99	1,09,42	58,80	65,47	68,02	72,99
<i>Shawls</i>	19,97	16,70	16,13	14,30	11,88	11,77	13,83

The appended Table A contains the statistics of the net imports of treasure during 1876-77 and in previous years. The amount of Government bills drawn upon India and the amount borrowed by the Government are also shown in this Table as illustrating the subject. The exports of gold exceeded the imports, for the first time during the nine months April to December 1876. This unusual phenomenon continued during the five months June to October, and must apparently be attributed to the relative values of gold and silver not having varied in the same proportion in India as in other parts of the world.

As to remittances, the rate of exchange has necessarily followed closely the price of silver. There is reason to believe that the alarm felt in the early part of 1876, as to the future value of silver, led to Banks and others making great efforts to withdraw their capital from the East to the West, and that this movement may partly explain the extreme depression in June and July 1876. The retransmission of capital to the East on the partial restoration of confidence, may explain the rapidity of the subsequent recovery in the value of silver and of the exchange with gold.

Two other Tables, B and C, are appended to this Note showing the variations in the prices of the chief staple commodities at Bombay and in Calcutta since the beginning of 1873.

It will be observed—

- (1) That with the exception of spelter and gold, the prices of imports are generally lower at the end of this period than they were at

- the beginning ; and that there has been no marked rise in the prices of imported commodities since the beginning of 1876.
- (2) That the following exports show a more or less considerable rise in price since the beginning of 1873 : *jute, rice, silk, tea, coffee ;* and the following since January 1876 : *indigo, rice, silk, tea, wheat.*
- (3) That *cotton, wool, hides, lac, saltpetre* and *wheat* show a decrease of price as compared with the beginning of 1873 ; but that the prices of *wool, wheat, luc* and *saltpetre* have materially recovered since the beginning of 1877.

There are special causes for the improvement of the prices of most of the articles which show improvement ; and, upon the whole these tables do not appear to indicate any decrease in the value of silver ; the prices of all articles of export have however, doubtless, been stimulated by the low rate of exchange.

II.—Applications made to the Government of India for measures in remedy of the effects of the fall in the gold-price of silver ; and the action taken thereon.

On the 17th July 1876, the Secretary to the Bengal Chamber of Commerce transmitted, for the consideration of His Excellency the Governor General in Council, the following two Resolutions adopted at a Special General Meeting of the Chamber held on Saturday, the 15th July :—

RESOLUTIONS.

1st.—“ That the continued depreciation in the value of silver is a question most seriously affecting the political and financial interests of the country, and that in view to its very great importance the Committee be requested to address the Government in order to obtain such information as they may be able to give, in regard to the policy which they propose to pursue under the circumstances.”

2nd.—“ That the Chamber approves of the suggestion of the Committee that it is expedient, in view of any ultimate measures that the Government may adopt, that clause 19 of Act XXIII of 1870, making it obligatory on the Mints in India to receive all silver tendered for coinage, and also section 11, clause (b), of Act III of 1871, making it obligatory on the Currency Department to issue Notes against silver bullion sent in, be temporarily suspended, at the discretion of Government ; and that during such suspension, or till further notice, it be not lawful to import coined rupees from any foreign port.”

On the 22nd July the Secretary to the same Chamber forwarded, for the consideration of the Governor General in Council, copy of the Proceedings of the Chamber at the Special General Meeting aforesaid.

In this letter, the Committee of the Chamber, while recognising the difficulty of the position of the Government of India, remarked that the uncertainty that had hitherto shrouded the action of Government had been attended with serious consequences to merchants and bankers, and would so continue to attend their transactions so long as they were kept in ignorance of the course of action the Government propose to take. The Committee, therefore, expressed a hope that His Excellency the Viceroy would, in the interests of commerce and of the country generally, accede to the prayer of the first Resolution of the meeting, and make public the intention of the Government.

As to the second Resolution, the Committee pointed out that its object was not to prohibit coinage altogether, for that would be likely to

bring about a collapse of credit ; but to place all coinage in the hands of the Government to be exercised at their discretion. It appeared to the Committee suicidal for the Secretary of State to allow the competition of bar silver with the rupees which he has to offer to those requiring money in India, and that to suspend the free conversion of silver bullion into legal tender coin was not only a wise and reasonable, but a necessary precaution for the Government of India to take for the preservation of their own currency, and to support the credit of their own loans, as well as to prevent the country from being swamped by silver sent in by foreign nations.

The Committee argued that the fact that the Government of India was compelled " to put their Mint Stamp to all silver " sent to India " had given an artificial and fictitious value to silver, " which would cease as soon as the law was suspended. Bar silver would then, gradually, fall to its own intrinsic value ; and the extent to which it was depreciated would be soon gauged ; whereas, as things were, it was impossible to say how much its value was appreciated by our " open coinage system."

When all Europe was closing its door against the import of silver with the avowed object of having as little of the metal as possible, should the depreciation be found permanent, it seemed most impolitic, the Committee thought, " to keep ours wide open for the reception of an unlimited quantity, costing the country, through our coinage laws, far more than its real intrinsic value." The Committee could see no valid reason against the immediate adoption by the Government of the second Resolution of the meeting, and considered that the objections brought against it were based either on a misconception of its real scope, or on abstract principles (ignored by other States): whereas the position of affairs was altogether exceptional, and ordinary rules did not apply. The Committee represented that the measures recommended in the Resolution were not more stringent than (in fact, scarcely so stringent as) the first financiers in Europe had found it necessary to adopt.

Lastly, the Committee pointed out that there was a third proposition put before the Meeting, recommending the adoption of a gold standard, which, in deference to the feeling apparent among members present, was temporarily withdrawn ; and they referred the Government to the debate at the Meeting upon this proposal.

On the 31st July the Government of India published a Resolution inviting attention to the immediately probable financial consequences of the fall in the gold-value of silver, and insisting upon the necessity for the utmost economy of the public resources.

On the 1st August the Secretary to the Calcutta Trades' Association forwarded a Memorial from the Master, Wardens, and Committee of the Association to His Excellency the Viceroy and Governor General of India in Council.

In this document the memorialists represented that they had, for many months past, been suffering great loss from the low rate of exchange which bid fair to paralyse trade. The memorialists joined earnestly with the Bengal Chamber of Commerce in urging on the Government the importance of declaring the policy it intended to pursue for the remedy of this evil, and prayed that the policy of a temporary suspension of the compulsory coinage of silver might receive the early consideration of Government.

The memorialists further expressed great satisfaction at the desire manifested by the Government to encourage local manufactures, and suggested a relaxation of the rules against the purchase of imported stores for the Government in India.

On the 22nd September 1876, after considering the " Report by the Select Committee of the House of Commons on depreciation of silver, with the Proceedings of the Committee, ordered by the House of Commons to be printed on the 5th July 1876," the Government of India published a Resolution (No. 3044) upon the suggestions of the Bengal Chamber of Commerce and the Calcutta Trades' Association, in which the following arguments and conclusions were stated :—

1. The recent change in the value of silver measured in gold may be due to changes in the value of one metal or the other, or of both. Before a fit remedy can be applied, it is essential to ascertain what exactly has happened, whether gold has risen or silver fallen, and how much the value of each metal has changed. It cannot be assumed, without decisive proof, that the divergence of the two metals is due wholly, or even chiefly, to the fall in the value of silver.

2. The prices of commodities and of the precious metals, in London and in India, witness to a considerable rise in the value of gold since March 1873, and especially since December 1875, and do not show any fall in the value of silver measured in commodities other than gold. Using these prices with all reserve, it must still be said that they afford evidence of this fact, at least, that a rise in the value of gold is one of the causes which has disturbed the equilibrium of the two metals.

3. The divergence of the values of the two metals seems due to three principal causes, of which the first appears to be the most efficient :—

- (1) The substitution of gold as the standard of value, in Germany, the Netherlands, and the Scandinavian Kingdoms, for silver, and, in the Countries of the Latin Convention, for their customary alternative or compensatory standard of silver and gold.
- (2) The increased production of silver in the United States of America.
- (3) The decreased demand for silver in India.

4. The value of gold and silver, like that of any other commodity, depends on the one hand upon their supply, on the other upon the demand for them, which again depends upon the uses made of them. The long-continued equilibrium between the value of gold and that of silver is due to the two metals having shared, without material change of conditions, the only great field for the employment of either of them (*i.e.*, the supply of legal tender metallic money). This equilibrium has been disturbed by the rapid supersession of silver by gold in Europe and America as the standard of value, and therefore as the material of legal tender metallic money. This supersession is calculated *à priori* to raise the value of gold no less than to lower the value of silver.

5. Excessive importance is not, *per se*, attached to the increased production of silver in the United States of America.

6. When India is in a normal condition, *i.e.*, when there is no abnormal demand for any of her staples, and she is not borrowing large sums from abroad, the amount of treasure required to settle her accounts with the world is not considerable, and of the treasure received a substantial proportion has always been gold. The large imports of treasure into India since 1850 are due to abnormal circumstances, as follows :—

- (1) The Crimean War transferred to India large demands for produce theretofore obtained from Russia.

- (2) The American Civil War exaggerated temporarily the value of Indian cotton.
- (3) Great sums of money have been borrowed for—
- (a) the suppression of the mutiny ;
 - (b) the construction of railroads (Guaranteed and State) and canals ;
 - (c) the Bengal famine.

It would be altogether misleading to treat the great imports of treasure in the last 25 years as normal, or to expect that they will or can continue. There is, therefore, no reason to expect that silver will be poured into India, although, of course, if it falls in value, a greater weight of it must come to represent the same value.

7. To suspend the free coinage of legal tender metallic money, as advocated by the Bengal Chamber of Commerce, would give a monopoly value to the existing stock of rupees, and so reduce prices; whereas prices are not yet risen.

8. The value of no substance can serve as a standard-measure of value unless its use as the material of legal tender currency is freely admitted. If, therefore, the free coinage of silver on fixed conditions were disallowed in India, silver would no longer be the standard of value of India, but another standard would be substituted, *viz.*, the monopoly value of the existing stock of rupees, tempered by any additions made to it by the Government, or illicitly. If no such additions were made, the value of the rupee would gradually, but surely, rise, owing to the supply being cut off.

9. The stamp of a properly regulated mint, such as the Indian mint, adds nothing, except the cost of manufacture and seignorage, to the value of the metal on which it is impressed, but only certifies to its weight and purity.

10. A sound system of currency must be automatic or self-regulating. No civilized Government can undertake to determine from time to time by how much the legal-tender currency should be increased or decreased; nor would it be justified in leaving the community without a fixed metallic standard of value even for a short time. It is a mistake to suppose that any European nation has rejected silver as a standard of value without substituting gold.

11. For all these reasons, the Government of India rejected as inadmissible the proposal that the mints should be closed to the free coinage of silver for the public on fixed conditions, without at the same time opening them to the free coinage of gold as legal tender money on fixed conditions.

12. The Government of India further concluded that there was nothing as yet demanding recourse to a measure so costly, and of which all the conditions were so uncertain as the adoption of a gold standard. Thus the conclusions stated in the Resolution were:—

1stly—That the divergence of the values of gold and silver is not necessarily attributed only to a diminution in the value of silver; that there are strong reasons for believing that gold may have increased, as well as that silver has decreased, in value, and that this consideration must have an important bearing on the action of Government in reference to the present disorder.

2ndly—That although it is most desirable, in the interests of trade, that the standard of value in India should be the same as

the standard of value in the chief countries with which India interchanges commodities, yet trade will not be permanently injured by a fall in the value of the rupee measured in gold, provided only that a fresh stable equilibrium of the precious metals be attained.

3rdly—That, up to the present moment, there is no sufficient ground for interfering with the standard of value.

The only other representations received upon the subject by the Government of India have been complaints by various European officers in its service of the loss which they are suffering from the fall of the sterling value of the rupee, and prayers for assistance from the State.

These memorials are still under consideration, either by the Government of India or the Secretary of State.

TABLE A.

Net imports of gold and silver into India; Bills drawn in London upon the Government of India; and debt incurred by the Government of India.
In crores and lakhs of rupees.

Years.	Number of years.	NET IMPORTS.			AVERAGE YEARLY NET IMPORTS.			Proportion of net gold to total net imports.	Bills drawn in London upon Government of India.	Average rate of exchange at which bills were sold.	BORROWED BY GOVERNMENT OF INDIA, INCLUDING GUARANTEED RAILWAY CAPITAL.			Average price of standard silver in London per Oz. Troy.
		Gold.	Silver.	Total.	Gold.	Silver.	Total.				England.	India.	Total.	
	Y. M.								Pence.				Pence.	
1800-36	35 0	...	...	75.11	...	...	2.15	...	...	...	2.41	22.76	25.17	...
1835-50	15 0	8.19	23.94	32.13	.55	1.59	2.14	25.49	34.47	22.55	.78	11.04	11.82	59.65
1850-55	5 0	5.39	11.92	17.31	1.03	2.38	3.46	31.12	16.94	23.88	5.27	-2.04	3.23	61.40
1855-66	11 0	56.82	118.87	175.69	5.16	10.81	15.97	32.34	35.53	24.66	76.93	20.56	97.79	61.54
1866-72	5 11	25.05	35.93	60.98	4.23	6.07	10.30	41.07	40.79	23.95	48.34	5.15	51.49	60.83
1872-73	1 0	2.54	.71	3.25	2.54	.71	3.25	78.15	15.06	22.81	.16	-1.47	-1.31	60.16
1873-74	1 0	1.38	2.45	3.83	1.38	2.45	3.83	36.03	14.28	22.35	1.08	-.04	1.04	59.16
1874-75	1 0	1.87	4.64	6.51	1.87	4.64	6.51	28.72	12.00	22.22	5.84	3.40	9.24	58.16
1875-76	1 0	1.54	1.56	3.10	1.54	1.56	3.10	49.68	14.50	21.64	1.86	2.93	4.79	56.20
1876, April to December	0 9	Exports. .54	4.62	4.08	Exports .54	4.62	4.08	...	12.17	30.22	5.07	.36	5.43	52.62
Total	76 8	102.21*	204.61*	381.99	17.81*	34.83*	54.79	33.32*	195.77*	22.64*	145.74	62.95	208.69	...
Yearly average . . . . .	...	1.45	4.91*	4.98	1.98*	3.97*	5.48	...	4.70*	...	1.90	.82	2.72	58.86

* These totals and averages are for years from 1835-36 onwards.

TABLE B.

Variations in the wholesale prices of certain Staple Commodities at Bombay; taking the prices of January 1873-100.

	1873.		1874.		1875.		1876.									
	January.	July.	January.	July.	January.	July.	January.	July.	August 18th.	August 26th.	September 1st.	September 8th.	September 16th.	September 22nd.	October 2nd.	October 8th.
IMPORTS.																
Grey Shirtings (8 1/2 lbs.)	100	102	94	93	86	89	91	87	89	...	...	...	...	...	...	87
Mule Twist, No. 40	100	94	96	...	89	87	89	79	81	79	...	...	...	...	...	...
" Turkey red, Nos. 40-80	100	...	95	95	91	98	89	82	84	...	...	...	...	...	...	...
" Orange dye, Nos. 40-80	100	99	95	90	85	...	...	81	...	...	...	...	...	...	...	...
Copper, Sheathing	100	102	107	100	108	105	...	104	102	101	...	...	...	...	...	...
" Braziers	100	101	103	99	108	104	103	104	100	98	97	98	...	99	...	...
" Australian	100	94	100	94	102	...	104	99	95	...	94	95	...	...	...	...
Iron flat, square and bolt	100	120	131	110	93	87	90	79	...	...	...	...	...	...	71	74
Spelter	100	111	109	111	108	129	120	124	119	...	...	119	...	...	...	...
Coffee, Mocha	100	110	128	120	122	118	122	128	...	...	...	...	...	...	...	...
" Malabar	100	124	138	129	114	123	120	138	...	...	...	...	...	124	...	...
Ivory, large	100	86	89	95	92	...	...	116	110	...	...	...	...	...	...	...
" middling	100	103	91	100	94	...	...	124	123	...	...	...	...	...	...	...
Silk, China, Nankeen	100	93	87	...	...	...	...	82	...	...	...	...	...	...	...	...
" Canton, No. 5	100	84	89	...	...	...	111	98	...	...	...	...	...	...	...	...
EXPORTS.																
Linseed	100	97	...	93	100	88	92	94	92	95	...	95	...	00	...	...
Cotton, Surat	100	...	94	81	81	85	89	89	...	...	...	...	...	...	...	...
" Branch	100	84	94	81	83	85	90	84	...	...	...	75	...	72	...	...
" Amrawati	100	91	88	80	78	...	80	71	72	...	73	78	...	77	...	78
" Dholera	100	91	84	81	76	81	82	75	78	...	77	...	...	79	...	...
Wool, Mekran	100	90	68	81	77	79	66	55	...	...	60	...	...	...	...	...
" Khorasan	100	97	70	65	70	69	54	...	49	...	58	...	...	...	...	...
" Marwar	100	113	78	75	91	105	97	101	...	...	...	...	...	...	...	...
" Cutch	100	85	78	67	82	79	69	70	71	...	82	...	...	...	...	...
Sugar, Bengal, No. 1	100	96	92	...	98	92	...	88	...	...	...	...	...	...	...	...
" Mauritius, No. 1	100	97	91	...	87	91	86	...	...	...	...	...	...	...	...	...
Wheat, Rohapur Pinst.	100	...	75	82	79	72	79	81	...	...	...	...	...	...	...	...
" Khondwash Secol	100	95	77	76	74	73	77	75	...	...	...	...	...	...	...	...
" Lalgaum	100	105	78	75	...	79	78	78	...	...	...	...	...	...	...	...
" Jubbulpore	100	...	81	87	77	76	85	82	...	...	...	...	...	...	...	...

TABLE B—(continued).

Variations in the wholesale prices of certain Staple Commodities at Bombay; taking the prices of January 1875=100—contd.

	1876.								1877.							
	October 16th.	October 23rd.	October 30th.	November 6th.	November 13th.	November 20th.	November 27th.	December 4th.	December 11th.	December 18th.	December 25th.	January 1st.	January 8th.	January 15th.	January 22nd.	January 29th.
IMPORTS.																
Grey Shirting (lbs.)
Mule Twist 10
" " " red, Nos. 40-60	79	...	...	...	...	...	...	77	79	...	85	
" " " dye, Nos. 40-60
Copper, B...
" " " "	...	100	96	...	...	...	100	97	...	...	...	...	...	...	...	...
Iron, flat, and bolt	99	99	96	96	...	...	...	...	...	94
Spelter	79	...	...	...	97	...	94	93	...	94	...	...	93	94
Coffee, M...	76	...	76	73	...	79	...	...	...	...
" " M...	115	114	...	...	...	...	110	...
Ivory, lar...	117	...	...	...	...
" " mid...	100	...	...	...	...
Silk, China, Nankoo
" " Canton, No. 5	113	...	...	...	...	...	...	...	...	...	...	...	...	107
" " "	112	...	...	...	121	...	...	...	116	...	...	...	...	107
" " "	107	...	...	...	107	...	...	...	...	104
EXPORTS.																
Linseed	109	109	...	...	110	...	...	...	...	...	...	...	...	...
Cotton, Surat	111	...	100	...	...	...	96	103	108
" " Br...	75	79	...	75	...	...	...	...	...	...	...	...	...
" " D...	78	80	...	78	...	89	...	76	80	93	...	...	91
Wool, M...	81	88	...	82	...	87	89	87	90	92	...	...	93
" " K...	69	...	...	...	85	86	87	89	91	...	...	94
" " M...	74	...	...	...	72	71	81	...	...	...	...	...
" " C...	78	69	78	...	...	...	...	...	...	...
Sugar, H...	85	...	...	...	...	...	...	...	...	...	...	...
" " M...	85	82	86
Wheat, S...	91	89	93	96
" " K...	88	88	90	111
" " La...	81	97	88	91
" " Ju...	90	100	91	90
" " "	88	93	94	103
" " "	96

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TABLE C.

Variations in the wholesale prices of certain Staple Commodities at Calcutta; taking the prices of March 1873=100.

	1873.					1874.				1-75.				1876.			
	March.	June.	July.	September.	December.	March.	June.	September.	December.	March.	June.	September.	December.	January.	February.	March.	April.
IMPORTS.																	
Grey Shirtings (8½ lbs.)	100	99	...	97	83	...	97	87	64	88	85	84	...	85	84	86	84
Mule Twist, white, good, No. 40	100	97	99	90	96	95	92	90	91	92	88	87	...	86	91	90	86
.. Turkey red, No. 40, 12 lbs.	100	104	112	108	115	112	108	104	...	102	...	96	94	92	93	92	...
.. Orange, Nos. 40-80	100	110	113	...	110	107	102	95	90	83	...	92	88	87	80	87	89
Copper Sheathing	100	101	99	87	102	100	95	...	100	103	99	100	102	101	100	99	...
.. Braziers	100	...	87	94	102	94	95	97	100	103	100	...	101	97	101	99	101
.. Australian	100	106	110	110	108	115	108	101	106	108	106	102	108	110	109	107	100
Iron, flat, bolt, bar, and square	100	109	111	112	116	122	104	100	89	93	85	73	78	81	79	...	82
Spelter, hard	100	105	...	...	114	100	105	114	118	148	137	136	148	...	168	151	152
Gold, Australian, 23 carats, fine	100	100.37	100.74	...	101.87	94.88	100.37	100	100.7	100.74	101.12	...	101.87	...	104.87	102.90	...
Gold*	100	100.74	100.63	101.06	102.04	102.79	101.27	103.57	104.37	104.14	107.03	105.4	108.48	108.87	111.91	111.72	...
EXPORTS.																	
Hides, buffalo, slaughtered, Patna	100	97	94	...	92	96	...	92	88	83	...	75	...	79	71	...	60
.. cow, slaughtered	100	...	94	100	...	106	100	...	...	97	84	74	78	...	...	...	...
Indigo, good	100	Nom.	...	...	110	Nom.	...	...	...	...	...	...	90	91	95	Nom.	...
Jute, picked	100	97	...	119	144	137	144	...	137	132	123	119	125	141	137	128	131
.. ordinary	100	81	...	103	129	123	129	...	123	119	100	103	113	123	...	119	...
Lac dye, fine	100	85	...	...	87	Nom.	55	...	60	73	...	55	...	...	...	45	...
.. middling	100	89	...	40	79	Nom.	33	...	...	44	...	22	...	...	...	...	...
Shell lac, fine orange	100	112	115	127	129	149	161	166	183	...	164	149	119	105	97	102	94
.. middling	100	113	116	131	127	149	165	173	187	...	164	127	100	95	83	87	73
Linseed, fine, bold, clean	100	102	105	108	111	123	103	106	110	96	90	...	92	90	88	...	85
Rice, mounghy	100	97	139	118	150	153	161	Nom.	...	...	...	128	117	111	115	114	...
.. ballam	100	101	100	...	165	153	162	...	154	112	126	141	135	118	123	119	115
Faltpetre, 2-4 per cent. refraction	100	94	...	95	91	81	80	86	83	75	73	76	74	72	70	...	69
Silk, raw, Coasimbazar	100	99	93	84	80	89	80	80	58	82	...	53	40	53	58	...	56
.. Gonatea	100	91	95	86	82	91	82	52	59	64	...	55	43	55	59	...	57
.. Jungypoor	100	90	88	81	79	86	81	59	...	62	...	52	43	52	55	...	59
.. Madansgore	1-0	87	...	78	78	87	78	59	58	59	56	52	39	46	54	...	56
.. Burdahs	100	87	82	83	79	87	83	58	58	60	...	52	42	46	54	...	56
Sugar, Benares	100	...	94	...	...	77	...	...	...	...	...	...	...	...	...	...	Nom.
.. Date, Gurpatta	100	97	87	82	...	77	...	...	...	...	...	72	...	...	...	...	68
.. Dulloah	100	98	66	100	...	...	96	...	...	...	...	...	...	...	...	...	86
Tea, fine, Pekoe	100	109	128	123	...	119	126	119	123	126	...	129	135	...	...	143	N.
.. good, Souchong	100	114	...	...	...	...	123	118	123	125	114	109	104	95	...	109	N.
.. Congou	100	113	125	...	119	N.	137	...	150	...	125	112	119	106	...	113	N.
Wheat, Doodiah	100	94	...	107	115	107	111	100	98	87	76	78	...	78	...	74	...

* These prices of gold are calculated from the prices in Sterling of Bar Silver in the London Market.

TABLE - C—(continued).
Variations in the wholesale prices of certain Staple Commodities at Calcutta; taking the prices of March 1873=100—contd.

	1876.												1877.					
	May.	June 1st.	June 26th.	July 10th.	July 24th.	August 7th.	August 31st.	September 4th.	September 18th.	October 12th.	October 26th.	November 9th.	November 23rd.	December 7th.	December 31st.	January 4th.	January 17th.	February 1st.
IMPORTS.																		
Grey Shirtings (½ lb.)	83	80	...	...	...	83	80	79	78	...	...	...	...	...	...	...	...	83
Wool Twist, white, good, No. 40	84	86	...	...	86	84	...	...	...	...	...	...	...	...	...	...	...	87
" " Turkey red, No. 40, 1½ lb.	86	...	90	...	...	...	...	...	...	86	...	...	...	...	...	...	...	85
" " Orange, Nos. 40-60	87	88	...	...	...	80	...	...	...	...	...	...	...	...	...	...	...	...
Copper Sheathing	...	...	...	...	...	...	98	...	...	99	99	98	98	98	93	93	91	98
" Brazilian	...	...	...	...	100	99	...	...	...	99	99	98	98	98	91	91	91	98
" Australian	106	107	106	...	...	104	102	99	...	104	106	...	...	103	100	...	98	98
Iron, flat, bolt, bar, and square	79	76	78	...	...	...	...	73	71	...	71	69	...	88	...	67	66	...
Spelter, hard	146	...	180	181	188	...	152	161	150	166	166	165	...	146	143	...	139	133
Gold, Australian, 23 carats, fine	103.37	107.86	...	110.98	113.86	110.86	107.86	113.86	110.1	109.34	...	106.62	107.86	108.37	...	101.47	103.37	...
Gold*	114.90	116.46	118.81	127.18	120.71	118.85	116.45	118.02	116.4	114.93	112.6	110.62	109.63	106.67	106.00	104.3	103.02	107.91
EXPORTS.																		
Hides, buffalo, slaughtered, Patna	68	66	...	...	...	...	...	...	...	...	71	68	...	64	104	94	...	...
" cow, slaughtered	...	...	74	...	...	...	...	...	...	...	...	...	...	...	96	...	74	75
Indigo	137	...	...	134	144	...	...	137	136	134	137	137	144	116	110	...	108	108
Jute	131	134	133	...	129	137	...	123	121	123	130	136	136	...	112	...	135	133
Lac d...	66	...	...	56	...	...	...	...	...	64	...	...	...	...	69	...	48	55
Shell ...	83	88	...	81	80	78	...	79	81	101	...	96	80	71	69	...	...	...
" Orange	83	88	...	81	80	78	...	79	81	101	...	96	80	71	69	...	...	...
" Yellow	76	69	...	66	63	60	...	64	67	85	...	68	64	60	...	...	...	...
" bold, clean	81	86	87	81	111	91	89	80	98	100	100	104	102	102	102	105	105	...
Rice ...	...	113	...	...	125	119	117	...	114	118	128	128	126	126	155	180	139	...
Saltpe...	...	117	...	...	...	116	112	...	108	113	104	136	136	159	156	158	147	...
Silk ...	88	...	79	...	...	77	...	76	79	83	76	80	...	...	...	...	79	...
" Simbar	...	84	87	84	93	...	107	...	116	133	...	...	...	96	...	111	111	...
" Sue	...	81	86	86	96	...	109	...	119	134	...	...	...	98	...	114	119	...
" Cypoor	...	84	71	79	100	...	...	...	114	133	...	...	...	98	...	109	114	...
" Mangore	...	83	73	83	96	...	101	...	117	130	...	...	...	98	...	109	109	...
" Sibs	...	84	71	96	96	...	104	...	117	133	...	...	...	100	...	113	...	...
Sugar ...	...	75	83	...	...	...	...	...	...	73	...	77	80	...	90	88	86	...
" Surpatta	...	84	...	...	73	...	77	...	...	...	...	...	...	...	...	...	...	87
" Sibs	83	87	...	93	...	...	...	...	...	...	...	...	...	...	...	...	...	127
Tea ...	...	...	137	136	137	145	114	146	151	...	155	155	149	...	...	...	118	...
" Hong	...	...	137	144	137	131	...	...	...	...	125	125	119	...	...	...	131	...
Wool ...	70	76	...	79	74	...	79	76	80	81	80	79	76	79	96	87	81	68

* These prices of gold are calculated from the prices in Sterling of Bar Silver in the London Market.

XXXII.

DESPATCH FROM THE GOVERNMENT OF INDIA, TO THE SECRETARY OF STATE FOR INDIA, No. 423, DATED 9TH NOVEMBER 1899.

The Government of India, in its Financial Despatch No. 363, dated the 13th October 1876, addressed the Secretary of State on the subject of the depreciation in the value of silver in relation to gold, which had at that time created considerable anxiety, by the sudden fall which took place in July of that year, when the exchange value of the rupee was hardly above *1s. 6d.*

2. The Government of India then came to the conclusion that the circumstances were not such as to justify any action in relation to the currency of India, though they had been strongly pressed by the Calcutta Chamber of Commerce to suspend the coinage of silver. In the view they thus took, they were supported by Your Lordship's predecessor, who, however, in stating his opinion to this effect, represented to the Government of India the risk of giving pledges on a subject on which it was desirable to leave their action free for the future.

3. The Despatch, above referred to, discussed in some detail the main considerations that presented themselves to the Government at that time in reference to the facts of the case as they then appeared. But the conclusions come to were chiefly of a negative order, and rather indicated the difficulty of finding any satisfactory solution of the questions raised, than gave them any practical answer. The general result, however, was, to point out that the adoption of a gold standard, with a gold currency that should replace the existing silver, would be so costly as to be impracticable, and would otherwise be open to objection; and that the attempt to raise the value of the rupee, by adding to its weight, would be an incomplete and uncertain proceeding, and costly, though far less so than the adoption of a gold currency.

4. The despatch notices also, but only to reject it, the proposal that the Indian standard of value, and, with it, the exchange value of the rupee, might be raised by limiting the coining of silver in the future, and by adopting a gold standard without a gold currency. The possibility of taking this course was not questioned; but the evils which it was thought must attend it, were held to be so great as to preclude its acceptance.

5. It was to have been expected that a subject so encompassed with difficulties, and on which opinion was so hesitatingly expressed, should not receive any early settlement, and it was probably the wisest, as it was certainly the most natural course, to allow further time to elapse before attempting any final solution of the grave financial problem it involved. The improvement that took place in the value of silver in the year 1877 favoured this policy of inaction; and it is only now, when a fresh fall has brought down the rupee to a value hardly greater than that which it had in July 1876, that the serious nature of the risk which our existing currency law entails on us is once more forced on our attention by its practical effects on the Home remittances.

6. We, accordingly, have again had brought under our consideration the previous proceedings and consultations bearing on this extremely important matter, and we proceed to lay before Your Lordship the results of our deliberations upon it.

7. We are disposed to believe that the present great depression of the exchange is to some considerable extent the result of the special position of political and commercial affairs. When thus speaking of exchange, it is necessary to distinguish between those variations in the exchange value of the rupee which arise from variations in the par of exchange, and the fluctuations dependent on trade demand. The latter lie altogether outside of our consideration, and it is to the former only that we refer. Now there can be no doubt that the general low exchange value of the rupee, as thus understood, is the immediate result of the fall in value of silver in relation to gold, operating through our existing currency law, and that the serious fluctuations to which the exchange has been subject during the last two or three years, with the extremely mischievous effects they involve, are essentially due to the same cause, or to the uncertainty of the future relation of the values of the two metals.

8. It has further become plain that the current of all the most trustworthy opinion tends more and more towards the conclusion that, so far as can now be foreseen, there is no prospect of any early or complete recovery in the value of silver, and, on the contrary, that the probabilities are all in favour of a further fall. The constantly increasing wealth of the chief countries of the world leads them more and more to desire a gold standard for their currencies, and the far greater activity of international trade renders more and more inconvenient the retention by them of different standards, and adds to the probability of the general and exclusive adoption of the gold standard which has been accepted by the principal mercantile nations of Europe. The extension of the use of gold in place of silver tends to depreciate silver in relation to gold, and thus each step towards the general introduction of gold makes the maintenance of a silver standard more inconvenient in international transactions, and adds to the probability of the ultimate exclusion of silver altogether, except for token-money.

9. Of all the countries calling for notice in connection with this discussion that have had a silver standard, India is the only one which has not protected itself in some degree from the consequences of the fall in the value of silver that has been going on now for several years. The Latin Union has practically suspended the coining of silver for the last three or four years. Germany has abandoned silver entirely. Russia, Austria, and Italy have only a paper currency. The recent steps of the United States have merely been to permit a limited coinage of silver, and by the Government alone.

10. How serious is the disturbance caused in Indian finance by the fall in the value of silver in relation to gold that has taken place during the last six or seven years, will be appreciated when it is stated that the Home remittances of the present year were estimated, in the Budget, to require a sum of nearly two-and-a-half crores of rupees more than would have been needed in 1871, and that, at the present rate of exchange, say 1s. 7d., the excess would be as much as four crores. In other words, the country is now taxed from two to three millions a year more than would have been necessary if the old rates of exchange could have been maintained; and we must look forward to the possibility of this charge rising to four millions, or more.

11. In saying this, it is not intended to imply that India is wholly a loser in consequence of the fall in the value of silver; for there are, no doubt, compensating advantages, to which reference will hereafter be made

which must not be lost sight of in estimating the ultimate effect of these changes.

12. But, so far as the taxation of the country is concerned, measured in the currency of the day, it is obvious that the immediate result is what has been mentioned. And bearing in mind the necessary fixity of much of the existing taxation, the difficulty of finding new sources of revenue, and the dissatisfaction caused by all increases of taxation, even by those for which there is the most urgent necessity, it is indisputable that the political inconvenience of this gradually increasing burden is extremely great, aggravated as it further is by the uncertainty of its amount, and the impossibility of foreseeing its fluctuations, which may at any moment become the cause of the most grave financial embarrassment.

13. In attempting to adjust the new burdens thus required to be met, serious difficulties, moreover, arise. For, it being clear that it is to the general fall in the value of the whole amount of the Indian revenues, measured in gold, that this additional taxation is due, it might be held to be right, in strict equity to the several classes of the community, to readjust the whole of the former taxes, rather than to impose new taxes on any particular class. Other serious questions might also be raised in other directions, and can indeed hardly fail to be raised in a form that may be very embarrassing if matters remain as they are, with reference to the scale of salaries of public servants, fixed in former years when exchange was high, and more especially the salaries of European officers, who, from their position, are practically forced to make considerable remittances to England.

14. We refer to these points, however, not with any view of discussing their respective importance, or how they should be dealt with, but only to indicate the nature of some of the more prominent difficulties which have been caused, and which must continue to arise, if the present state of things is left without remedy. The necessity of frequent increases of taxation, and of having to meet a growing feeling of dissatisfaction among the most influential class of public servants, or to make a general revision and increase of the salaries of all classes, is not a happy prospect for any Government.

15. Though not here proposing, then, any elaborate discussion of the many forms in which the fall in the value of silver, with the uncertain prospects of its value in the future, affects public interests in India, there are two points on which it is necessary to dwell—first, the effect on the value of Government Securities; and second, the effect on the trade of the country.

16. Six years ago, in 1872, the average exchange value of the rupee was 23½*d*. The 4 per cent. rupee securities of the Government of India in Calcutta were then at an average premium of Rs. 18. At the same time, the enfaced 4 per cent. rupee securities in London were at £26. In the present year, the 4 per cents. in Calcutta have ranged for some months from about 94 to 96, and in London the latest quotation is £12. The amount of rupee paper held in London in 1872 was nearly 14 millions sterling in value, so that the depreciation of this property alone has not been less than two millions sterling. In 1872 the average value of the sterling 4 per cent. bonds of the Secretary of State was 104½, and in the present year it has been from 100 to 102. The great comparative steadiness of the Sterling obligations of the Government is at once obvious; and it is needless to dwell on the injury done to our borrowing power by the risk to which the public creditor is exposed by such fluctuations in value as those of the rupee paper above noted.

17. The consequences of a fall in the exchange on the Import trade of India are almost equivalent to those of an Import duty of corresponding

amount. To secure the same profit in Sterling money with a falling rate of exchange, the prices of articles measured in rupees must be raised in the same proportion; sales will therefore be reduced, and the Export trade *pro tanto* checked also. It is, of course, true that the direct effect of the low exchange is to stimulate the Export trade, but the set off caused by the opposite influence on Imports must not be overlooked in estimating the value of this one advantage of cheap silver. It is unfortunately impossible to deduce any positive conclusions from the trade returns as to the real effect of the fall in silver on the Export and Import trade of India; the disturbances due to the seasons of extreme drought, to the commercial depression, and to the political troubles which have characterised the last two or three years, have been of a nature to obscure or obliterate the results that might perhaps have been anticipated. As a matter of fact, no improvement can be traced with any confidence in the Export trade, and it remains doubtful whether the greater cheapness of the rupee (subject to the opposite influence above alluded to operating through the Imports) has had any beneficial effect at all on the trade of India.

18. If we were to enquire whether a return from the present condition of affairs, in respect to exchange, to that which existed six or seven years ago, were desirable or not, if it were possible, we do not think that any differences of opinion could possibly arise among the various classes of the community. The Government and the tax-payer would alike hail the change with the greatest approval. Nor are the merchant or banking classes at all likely to dissent from such a verdict; and it will be remembered that the movement in 1876, in favour of measures supposed to be suitable for meeting or preventing the evils of the falling exchange, originated with them.

19. It is doubtless true that the foregoing observations have been directed mainly to the inconveniences arising from the fall in the exchange, or external value of the rupee, in relation to sterling currency, and to the uncertainty that must prevail as to this value in the future, if the existing Coinage Act is maintained. And we think that a careful examination of the situation will show that it is principally to this aspect of the question that we should look, though, of course, nothing should be done in attempting to remedy evils affecting the exchange value of the rupee, without careful attention to its internal value within British India.

20. The very existence of the British Government in India essentially depends on the regular remittance to England of the large sum which the demands of the public service require there for various purposes. In like manner, the prosperous condition of the commerce of India, and of all enterprise based on British or other foreign Capital, no less essentially depends on the healthy operation of the exchange transactions between the two countries. The enormous magnitude of these combined interests is obvious. The Home remittances of the Government amount to about one-third or one-fourth of the whole of the Revenues, and, in the present year, are about 17 millions sterling. The value of the Export and Import trade with Europe, taken together, has for some years exceeded 100 millions sterling, and the British Capital invested in Railways alone amounts to upwards of 100 millions.

21. The uncertainty that has now for some years prevailed with reference to the value of silver, and the consequent disturbances in the exchange, have, we need hardly remind Your Lordship, been causes of continued financial difficulty to the Government both in England and India, and it is not possible to doubt that similar results must have been produced by these disturbances in the trade transactions of the country, or that investments of

foreign Capital in India, either for trading or other purposes, must have been very seriously interfered with by their influence.

22. At the present time, when political events may throw upon India new burdens of unusual magnitude, the position of our Government in relation to this question assumes a character of extreme gravity. Whether, if such demands upon us arise, they would require us to have resort to increased taxation to provide additional resources for the service of the year, or to loans to meet sudden or unusual charges, or, as may be more probable, to a combination of the two, the anxiety that will attend our Financial administration must be very great; and if the holders of silver should, under any combination of circumstances, throw any considerable quantity on the market, as is at all events possible, the consequences to India might be financially disastrous. How a sudden call to supply by taxation a million or more to provide for further loss by exchange, and one or two millions for war charges could be met, we are at a loss to know; yet that such demands might arise, no one can say is so improbable as to remove them from a serious claim on our attention. The prospects of a loan in such a case would not be much more satisfactory. Any temporary relief obtained by borrowing in England would be more than compensated by the increased burdens created in the future, and the necessary tendency of things would be to go from bad to worse.

23. Such we hold to be a true statement of the present difficulties and prospective risks of maintaining the existing currency law, and we feel assured that they have not been in any way overstated. It remains for us to enquire whether any practical remedy could be devised on that should not be open to serious objections, or the risks attending the adoption of which should not be so great as to prohibit it. We feel most fully the heavy responsibility that will rest on us in dealing with the Currency of India; but it is plain that the responsibility for doing nothing is no less great. Whether the law is left as it is, or whether it is changed, the result will be equally due to our action, and we cannot, if we would, avoid facing this grave question.

24. To obtain fixity of exchange by the adoption of a gold standard, and the substitution of a gold for a silver currency, through the direct action of the Government, has, we think, been conclusively shown to be impracticable by the Despatch of the Government of India of October last; and this plan, therefore, calls for no further notice. The increase to the weight of the rupee, also noticed in that Despatch, is equally undeserving of attention, as, in fact, it would give no security for the future, and would entail a heavy charge without accomplishing the essential point to be aimed at. There remains the simpler and first proposed suggestion, the limitation of the coinage of silver, which, though rejected in 1876 by the Government of India, as already stated, appears to us to call now for a closer examination.

25. This suggestion in its main features is, that the Coinage Act shall be so far modified as to withdraw the free right of the public to take silver bullion to the Mint for coinage, and either to suspend it entirely in future, or limit it for a time. The precise manner in which, in conjunction with this change, provision should be made for needful future expansion of the currency, has not been so exactly stated, or with the same concurrence of opinion; and, almost as a necessary consequence, the method by which the standard of value of the rupee should be determined in future, or while the coinage for the public is suspended, has not been exactly defined by many of the advocates of the plan.

26. It is obviously an essential part of any such scheme, if it is to have the effect of fixing the exchange value of the rupee, that the power of obtaining that coin in future shall be regulated in some manner by a gold payment, and that the relation between sterling and rupee currency shall thus be fixed irrespective of the fluctuation in the relative value of the metals of which the coins are formed.

27. It is not, on the other hand, an essential part of such a plan that any particular relation of value should be thus fixed, and, so far as its principle is concerned, it is immaterial whether the rupee should be fixed at two shillings, that is, one-tenth part of a pound sterling, or at any smaller or larger proportion. All that is necessary is that the rate, being once fixed, shall remain for the future unchanged. It will therefore be convenient first to look at the results of the adoption of a gold standard for the India rupee currency in its general features, and irrespective of the precise relation to be fixed between the rupee and the pound sterling.

28. So far as we are aware, the only general objection that has been urged against adopting a gold basis for the Indian Currency, instead of silver, excepting that it would involve a change of long-established custom, is that it would greatly disturb and increase the value of gold throughout the whole world, and would thus create a fresh set of evils, the consequences of which would be worse than those that have been caused by what is commonly spoken of as the fall in the value of silver. It is argued that this fall has, till now, been in fact nothing more than a rise in the value of gold; that, by excluding silver from its place in the currency of India, its value would be really reduced, while the introduction of gold would cause such an additional demand for that metal, that its value would be much raised all over the world; that India, with all other countries, would be made to suffer the evils of a currency of gold much enhanced in value; and that India, in particular, would suffer from having to discharge both its existing silver obligations in India, and its sterling obligations in England, in gold so enhanced in value.

29. We are unable to attach any importance to such arguments. That the diminished use of silver and the increased use of gold, for currency purposes, has added to the value of the latter metal in relation to commodities generally, is, at all events, not impossible, or even improbable, within certain limits. But that there is any sufficient evidence of the value of silver, in relation to commodities generally, having been maintained, we are not prepared to admit. And the argument is so far self-contradictory, that any reduction in the use of silver in currency must have an exactly opposite effect on the value of silver, to that produced on the value of gold by the increase in the use of gold, so that there is the same reason to conclude that there has been a fall in silver as that there would be a rise in gold, in relation to other commodities.

30. Next, we do not think that the adoption of a gold standard for India would necessarily, for a long time at least, lead to any very important reduction in the quantity of silver required for the Indian coinage. Neither, on the other hand, do we think that it would necessarily lead to any very large use of gold. Therefore, we should not anticipate any very important change in the values of the two metals, as a necessary consequence of the change spoken of.

31. Further, on this point we will remark that experience has shown how extremely untrustworthy are all speculative opinions as to the rise or fall in

the value of the precious metals, and as to the effect of such changes of value on the currencies of the civilised world. The subject is one which we, therefore, think it useless to pursue, and we prefer to treat the question before us in relation to the actual facts from which there is no appeal.

32. Any objection to the change from a silver to a gold standard could not, in our opinion, be sustained merely on the ground of its being a departure from established custom. The existing Currency Law was framed, and has been maintained, because it was thought that it would give the best practicable protection to the special interests concerned in the money transactions of India. As soon as that character is lost, all justification for maintaining the law ceases, and the necessity for changing it arises.

33. Probably the most important question in connexion with the adoption of a gold standard of value for India, is the rate at which the existing coin shall be valued, and it opens out various complicated and difficult enquiries. But, before dealing with it, another point may conveniently be discussed, namely, whether or not it is practicable to maintain a silver coinage as the principal element in our currency, with a very limited gold coinage, or without a legal tender gold coinage at all. The Government of India, in its Despatch of 1876, expressed an opinion adverse to the possibility of maintaining such a system, and held that a step such as is now under discussion would soon force the adoption of a full gold coinage, leaving the silver as a supplementary part of the currency. On a full re-consideration of this point, we are led to take the opposite view, and to think that such a system would be perfectly practicable, and would lead to no material difficulty. It is true that there is no country in which such a condition of things actually exists. But those countries—and there are many of them—in which an inconvertible paper currency exists or has existed, give proof that the far greater anomaly of a currency devoid of any intrinsic value whatever, is capable of performing the work of a metallic currency satisfactorily, and of maintaining its local exchange value so long as an excessive issue is duly guarded against.

34. The local demand for gold, silver, or notes (when a paper currency exists alongside of a metallic currency), will almost wholly be determined by the habits or prejudices, and the average magnitude of the money transactions, of the people; and we see no reason to think that any theoretical change in the standard of value would operate so as to modify the habits of the people of India in respect to the use of silver coin for the bulk of their transactions, for a long time at least, especially if the coin itself were not changed in any way.

35. The practical issue, however, would plainly be influenced in a great degree by the intrinsic value of the silver coinage which would be current on such a system. In proportion as the intrinsic value of the silver coin approached its nominal gold value, the facility of maintaining the system would be greater, and *vice versa*, and in the actual position of things in India, the extent to which a silver coinage would remain current, with a partial gold coinage at a nominal value much in excess of its intrinsic gold value, becomes of much importance.

36. First, looking to the British coinage, we find that the shilling as now current would be worth, with silver at 50*d.* per ounce, a small fraction more than 9*d.* At such a rate a rupee intrinsically worth 1*s.* 6*d.* might remain current at a nominal value of 2*s.* The Mint law of France fixes the relation of gold to silver, on which the full legal tender silver money is based, at

15·5 to 1. At 50*d.* per ounce for silver, the actual relative value is about 18·7 to 1, so that, at the present time, the intrinsic value of the 5-franc piece is reduced in the proportion of 18·7 to 15·5, or to about 4·2 francs. This is equivalent to a rupee, at 2 shillings nominal, being intrinsically worth 1*s.* 8*d.*

37. These instances seem to show that neither in the way of the surreptitious coinage, nor of discredit from depreciation of intrinsic value, is it probable that there would be any serious difficulty in keeping the rupee in circulation at its present weight, at a nominal value of two shillings, with a gold standard, and a partial gold coinage.

38. That some difficulties and inconveniences might arise from a silver coinage so current at a rate much above its gold value will, of course, be obvious; and, amongst these, the risk of fabrication of false or illegal coins is often spoken of as likely to be serious. But we believe that experience does not support this view. The offence of coining is not of frequent occurrence, and the mechanical difficulty of imitating, with success, silver coins such as those produced at the Indian Mints, with any appliances likely to be available to fraudulent coiners in India, is so great as to appear to us to remove from this cause of objection almost all its practical importance. It has been urged, and we think with truth, that so far as the general maintenance of the value of the currency, and its character for genuineness, are concerned, a very much larger introduction of false coin would be required, to produce any sensible effect, than could be contemplated in any circumstances that can be conceived.

39. Neither is it to be lost sight of that there is a comparatively easy and certain method open for correcting the evils that arise from a silver currency in such circumstances as those that have now been referred to, namely, the gradual addition to its weight. This could be carried out by degrees, and without cost to the State, to any extent thought expedient, within the practical limits of the coining power of the mints. On the whole, therefore, we consider that objections of this class may be regarded as sufficiently answered.

40. There remains one other point to be noticed. It is frequently said that any interference with the currency which involves the modification of the values of the coins, by which alone debts can be discharged, is unjust, as leading to violations of contracts already made, and the performance of which extends over a considerable time. Such an allegation would no doubt be true if the condition of affairs was such that the values affected by such contracts would have remained constant if the interference in question had not taken place. But, as India is now situated, the truth is quite the reverse of this. The only hope of preserving the values of existing contracts is to exercise some interference. Those who have seen the value of the rupee fall in a few years from 2*s.* to 1*s.* 7*d.* may, without their sense of justice being questioned, ask to have the contracts made at the former rate, protected, if not by a restoration of things to the position in which they were five or six years ago, at all events to the extent of giving security against further loss. And the considerations apply equally to contracts made wholly in India, as to those made between India and other countries.

41. It would be idle to deny that the very essence of all laws relating to the currency is to give fixity to the standard of value so far as it is possible. Nothing was further from the intentions of the framers of any of these laws than to enable persons who entered into engagements ten or twenty years ago to discharge the obligations then incurred by means of greatly reduced payments in consequence of a fundamental change in the value of the metal then

selected as the standard of value because of its supposed fixity of value. When a law not only ceases to produce the effects it was designed to produce, but leads to results wholly opposed to its original intention, the necessity for looking closely into the expediency of its retention can no longer be questioned.

42. The extent to which prices in India itself have been affected by the fall in the value of silver in relation to gold outside of India, to which is due the great fall in the exchange value of the rupee, is extremely difficult of exact determination. As a matter of fact, however, no disturbance of internal value that has attracted any notice has till now followed the fall in silver, if, indeed, it has occurred at all in an appreciable degree; and it is certain that if any change has taken place, it has been altogether insignificant in comparison to that which has occurred in the foreign exchanges. If this be true for the past fall, we see no reason for doubting that it will be true for a future rise, if steps are at once taken to arrest further change of internal prices; and we confidently believe that the restoration of the gold value of the rupee to what it was six or seven years ago would now produce no greater *internal* inconvenience or disturbance than that which followed the recent fall of value; or, in other words, that no such consequences would ensue at all. But to secure such a result the action must be prompt, for the influx of silver is certainly leading to a general depreciation of the rupee currency, at present imperceptible.

43. From these more general considerations, we pass to those that should govern the determination of the precise relation that would best be fixed between gold and silver, on the hypothesis of the adoption of the gold standard for a rupee currency. In the first place, it is obvious that to guard against future variations of the relative value of the two metals favourable to silver it would be expedient to pitch the future nominal value of the rupee *above* its intrinsic value. Indeed, if no change is to be made in the weight of the rupee, this precaution might be considered essential. Further, it would be desirable, for this same reason, to fix the new value of the rupee, measured in gold, at an amount that is not likely to be reached by any fluctuations of the value of the precious metals that can now be anticipated. In this view, it would appear improbable that a lower rate than *1s. 10d.* or *1s. 10½d.* could be accepted.

44. But, having reached this point, it may be asked whether it would not be desirable to go a little further, and take *2s.* as the new standard value. It must be borne in mind that, the main point to be secured being fixity in relation to gold, to raise the exchange beyond a certain point will be a positive evil, just as much as its recent depression has been so. On the whole, the conclusion that would appear to us least open to objection (every decision being, in the nature of the subject, arbitrary), would be to endeavour to restore to the rupee the value in relation to gold that prevailed before the late serious depression in silver began. We think that this would best meet all the conditions of the problem to be solved. In proportion as the risk of change has increased, it is probable that contracts have been more guarded. All transactions are necessarily subject to the fluctuations of exchange caused by external influences of all sorts; and if the change of standard were introduced, as it might be, in a manner that would spread the rise of exchanges over some time, the extent of the disturbance would, we should think, be reduced to small dimensions.

45. There would doubtless be some practical convenience in bringing the currencies of England and India into a relation that would make the pound

sterling a decimal multiple of the rupee. But the value of this should not be over-estimated. The exchange value of the currencies of the two countries would still necessarily constantly fluctuate, though within very far narrower limits than heretofore. As, however, there would appear to be no very good reason for selecting any one fractional amount between 1s. 10½d. and 2s. 0d. for the gold value of the rupee in preference to another, the balance of convenience would seem to rest with the adoption of 2s., which would very closely comply with the condition of approximating to the former value.

46. We are thus led to the general conclusion that it will be practicable, without present injury to the community as a whole, or risk of future difficulties, to adopt a gold standard, while retaining the present silver currency of India, and that we may thereby, in the future, fully protect ourselves from the very real and serious dangers impending over us so long as the present system is maintained. We consequently desire to recommend to Her Majesty's Government the adoption of such a change at the earliest moment possible, and we shall proceed to explain, in all necessary detail, the measures by which we advise that it should be effected.

47. To facilitate the explanation of our views, we have prepared a Draft Bill (a copy of which is annexed, and to which reference is requested) which would, in our opinion, when passed into law, accomplish all that would for the present be necessary.

48. The first point to be guarded in attempting to carry out the proposed change, is to provide for complete freedom for any expansion of the currency which the trade requirements of the country demand. This, we think, could not be properly secured if the Mints were wholly closed for the coining of silver for the public. If this measure were adopted, the responsibility for supplying the silver demand would be thrown on the Government, and in the present position of the market for gold and silver bullion in India, it would not be possible to accept such a duty.

49. What might at first sight appear the simplest, and therefore the best, way of allowing for the expansion of the Indian silver currency, with a gold standard, would be for the Government to undertake to give silver coin in exchange for gold coin to all comers, at the rates fixed by the new system, and to open the Mints for the coinage of gold, while they were closed for silver. But, in the absence of any supply of silver in India from which to obtain the necessary material for coinage, such an obligation could not be accepted, without involving the Government in complicated transactions in the purchase and storing of bullion which it would be very inexpedient to enter on.

50. It has to be borne in mind that it is not the object of our action to force on India a gold currency, or to displace the silver currency; but rather to avoid such a result, or to check the tendency in that direction, so far as it can be done consistently with the adoption of the gold standard. We are consequently led to the conclusion that, while we give certain facilities for the introduction of gold coins into India, we should not yet go so far as to declare them a general legal tender; and that we should, at the same time, make provision for the coining of silver, without limits as to quantity, but on terms that will give no advantage to the introduction of silver in relation to gold.

51. These objects we propose to attain as follows:—We first take power to receive British or British Indian gold coin in payment for any demands of the Government, at rates to be fixed from time to time by the Government, till the exchange has settled itself sufficiently to enable us to fix the rupee

value in relation to the pound sterling, permanently, at 2 shillings. Simultaneously with this, the seignorage on the coining of silver would be raised to such a rate as would virtually make the cost of a rupee, to persons importing bullion, equal in amount to the value given to the rupee in comparison with the gold coins above spoken of. We should thus obtain a self-acting system under which silver would be admitted for coinage at the fixed gold rate, as the wants of the country required; while a certain limited scope would be given for the introduction and use of gold coin, so far as it was found convenient or profitable.

52. The simultaneous modification of the Paper Currency Law will obviously be necessary to relieve the Currency Department from the liability to give notes in exchange for silver bullion, and to provide for the issue of notes for gold. This will involve the grant to the Government of a power to discharge its notes in gold as well as in silver; and to this there can be no objection, even though gold be not now declared a legal tender, as the Government will accept gold in payment of its own demands.

53. No interference will take place with the coinage of silver for Native States, under the Native States' Coinage Act. The amount already allowed to be coined under this Act is small, and will have no practical effect on the currency generally, and the new rate of seignorage will apply to all such coinage authorised in the future.

54. The prohibition of the import of *coined* silver will be requisite, though when melted or defaced, its free admission will not be interfered with.

55. It has also been thought right, in order to provide against any hardship that might arise from the possible exclusion, by the proposed measures, of silver bullion bought or contracted for before the announcement of the intention of the Government to raise the rate of seignorage, and stop the issue of notes in exchange for silver bullion. Arrangements are, therefore, made for admitting such bullion for coinage, or exchange into notes, under suitable conditions to guard against abuse. Such a clause would not be inserted in the Bill when first published, but should be added just before it passes.

56. Lastly, power is given to the Government of India to put an end to the operation of the proposed law by executive order, so that, if any unforeseen mischievous results ensue from the restrictive operation of the new law, of a nature to show that it should not remain in force, the means shall be present of correcting the evil at once, and of reverting to the former state of things.

57. The principal object aimed at by the restriction of the silver coinage might, perhaps, have been secured without legislation by increasing the time that elapses between the receipt of bullion and the delivery of the coin proceeds, which time, under the existing law, is fixed by the Government. Such a course was, in fact, adopted, we believe, in France, with the same object. But we think that it would not be expedient to proceed thus, nor to interfere with the operation of the present Coinage Law, otherwise than under the authority of an Act of the Legislature.

58. We have considered it inexpedient to interfere at all with the British Indian gold coinage, thinking it best to restrict all changes in the law to what is essential for accomplishing the first step towards the change of the standard. We aim, it is true, at the eventual adoption of the British standard, and the extension to India of the use of British gold coins. But the measures now to be taken are preliminary only, and the ultimate position of the currency of India could not be regulated with certainty or advantage, till

the close of the period of transition required to establish the fresh relation of value between the rupee and the pound sterling.

59. We have thought it better to reserve to the Government of India, at the outset, the power of fixing the amount of seignorage on the coining of silver, and the rate at which British gold should be received in payment of rupee debts to the Government (subject to the limitation of the value of the rupee to one-tenth of a pound sterling), in order to allow some means of preventing any sudden rise in the exchange either from panic or other causes; and it will be a matter for careful consideration how the transition from the present rate to the highest rate contemplated may be carried out with the least disturbance of trade. It is not, however, now necessary to discuss this point.

60. We contemplate no change whatever in the manner in which the Home remittances are made, nor any interruption of the system of free tender for the Bills offered for sale by the Secretary of State. We think that the rate of exchange should, as heretofore, be left to be settled by the requirements of the market, only subject, of course, to the new conditions under which alone rupees would henceforth be procurable in India.

61. We consider that the wants of India, in the matter of silver coin, would be fully supplied without any friction under the system we suggest. At the same time, the accumulation of a certain proportion of British gold coin in the currency reserve would give a most useful power to the Government to meet any sudden or unusual pressure on the exchanges; and once more the Indian Currency would have restored to it the power of contraction by the export of coin, which it has practically long lost.

62. The proposed plan would give the Government no power to add to the currency by the coining of silver, and all fear of an inflated token currency would thus be removed.

63. We should, as already stated, not advise the immediate recognition of gold coin as a legal tender. Such a measure would not be necessary for the main object in view; it would be a departure from the existing condition of things which for the present had better be avoided, and it might tend to stimulate the process of transition from a silver to a gold currency which, as we have said, it should rather be our care to check at the outset. The acceptance by the Government of gold coins in payment of its demands would secure needful facilities for the import of gold for the present. At a later period, it would, no doubt, be expedient to throw open the Indian Mints for the coining of gold. The coins should then be made identical in all respects with those of Great Britain, and the needful authority should be obtained from Parliament to make them a legal tender in Great Britain, as Australian gold already is. With this change, the old British Indian gold coinage should cease. It has at present no legal status, and its disappearance would have no effect whatever on the currency.

64. We may attempt to look forward to the probable result of such measures if they be carried out. The imposition of the increased rate of seignorage on the coining of silver will have the necessary effect of raising the exchange till it approximates closely to the rate at which the gold coin of Great Britain is declared to be exchangeable into rupee currency. How soon this may occur will mainly depend on the local demand for money and the local supply. As the rise takes place, the general expenditure of the country meanwhile to remain unaltered, the Government, to meet what is technically called the "Loss by Exchange" will diminish, and the Govern-

ment will eventually find that the expenditure has been reduced by two or three crores of rupees. To this extent, if meanwhile no fresh cause of charge has arisen, taxation might be reduced, or the surplus of income over expenditure might be applied to the discharge of debt, etc.

65. If it be asked whence this improvement will be obtained, the reply is, that it will be solely by a redistribution of burdens, to the advantage of the tax-payer at large, at the expense of the Export trade of India, and it deserves special consideration how this may operate. To whatever extent the export trade may have been stimulated by the fall in the exchange, it must be checked by the rise of exchange. But the producers of India, while they receive less by reason of any reduction of the exports corresponding to the increased cost of the rupee to the foreign purchaser, will benefit by the simultaneous addition to the power of home consumption due to the reduction of taxation, which will follow the diminished cost of the home remittances. That, on the whole, there would be in the end a net reduction in the exports, or a check on their growth, following a rise in the rate of exchange, as compared to the normal condition established under a lower rate, cannot be questioned. The action, however, both in case of a fall or rise, is temporary only; and the ultimate necessary condition of trade is that any excess of the value of the exports over that of the imports of any country represents the amount which that country has to pay to other countries, which economists technically call a tribute, but which is really a payment for services of various sorts, including interest or profits on the investment of foreign capital.

66. Now it is plain that, so long as the amount of the so-called tribute is not changed, the quantity of merchandise necessary to pay it will not change either, excepting by reason of a change of its value in the foreign country to which it goes. The fall in the value of silver in relation to gold enables the foreign merchant to purchase larger quantities of Indian goods for the same amount of gold, whereby he is enabled to sell this increased quantity at a lower price. The Indian producer is paid in what is really a depreciated currency, though it does not at once lose its local value; the immediate result will be some direct increase of profit to the producer, by reason of increased sales, which will continue, but in a constantly diminishing degree, until the effects of the depreciation of the currency have become generally apparent, and a general rise of prices has been caused with corresponding increase of taxation and of all other burdens fixed in money. The profits of the producer on his sales will, taking the country as a whole, be more apparent than real, as the additional cost of the home remittances will have to be made good from the producing class, partly in the taxation that falls on them directly, and partly through the reduced consumption consequent on the taxation of all other classes.

67. As a fall in the value of silver would for these reasons lead to no eventual benefit or injury to the trade of the country, so neither would a rise of value. It is, indeed, great changes in the relative values of international standards that lead to evil consequences, and not mere differences in those standards. Recent experience has shown that the relation of the value of gold to silver can no longer be expected to remain without great fluctuations. It is therefore, in our opinion, of primary necessity, for the future prosperity of the trade of India with the countries of Europe employing a gold standard, that India, too, should have a standard of value based on gold, and not on silver.

68. The question on which we have now addressed Your Lordship, is one of such complexity, and has so many bearings on other subjects of high fiscal and economical moment to India, that it would not be possible for us, within the practical limits of such a communication as the present, to attempt to exhaust the subject, or to give a complete view of the consequences likely to ensue from the measures we have proposed. There are, however, a few more points to which attention may be drawn.

69. Among the objections that have been taken to the abandonment of the silver standard for India, one that we have heard is that the value of all hoarded silver would thereby be much reduced, and a great injury done to the people. So far as the hoarded silver is in coined rupees, no such effect would be produced, and, as to the rest, we think that no fairer subject of taxation could be found, if that expression rightly describes the effect of the change of standard, than the silver bullion virtually buried without producing any useful return to the country. Bullion so hoarded is in no sense Capital, and adds nothing to the real wealth or productive powers of the community, which are in fact based on the continued consumption and replacing of its Capital. Further, while silver is displaced, gold will be brought forward, and a supply of this metal may be found to be forthcoming in India itself for coinage in reduction of the quantity that might otherwise have been eventually required from outside.

70. We have observed that an immediate consequence of the improvement of the exchange would be the possibility of the reduction of two or three crores of taxation. This would at once give the means of carrying out without further difficulty the removal from the Import and Export trade of India of all the duties which now press upon it, and it is difficult to believe that such relief would not much more than compensate for any temporary pressure that might be caused by the rise in the exchange. The resources that would be set free might, indeed, enable our Government to go far beyond this great step, and to accomplish such a reduction in the Salt duties as would realise what have, till now, been necessarily mere visionary anticipations of an almost impossible future.

71. Another result, not less important, would be the increased facilities obtained for dealing with the public debt. The doubts now surrounding the future value of rupee securities would be removed, and our practical power of borrowing greatly improved, with corresponding reduction in charges for interest. And though no direct pecuniary advantage would be obtained for India in respect to the home remittances, since the diminished "Loss by Exchange," as has been already said, would lead to a transfer and not to a reduction of actual burdens, yet the relief would be great, by reason of the removal of all future anxiety or financial disturbance in relation to these transactions.

72. Further we think that the tentative and preliminary measures which we have proposed, would place the currency of India in a position in which the future possibility of an alternative standard (as distinguished from the present standard which, as commonly understood, we regard as an established one) would be left open. This subject, however, lies beyond our present task, and it is obviously one on which it is needless for us now to enter.

73. In conclusion, we desire to express our opinion that, if such a policy as we have advised is to be adopted, no time could be found for giving effect to it so favourable as the present. The extremely large importations of silver bullion last year, and the corresponding coinage amounting to about twelve or thirteen millions sterling in value, have been followed in the present year by

a very small import ; and the conditions of the Exchanges and Silver market render it almost certain that forward transactions on a large scale have not been entered into, and that an alteration of the Coinage Law would, at the present time, have unusually small practical effect.

74. To this might further be added, that the political risks of the present time, and the prospects they create of necessary additional taxation, which, if our proposals were adopted, might be avoided wholly or to a great extent, or even be met by reduction of taxation, add force to the argument that, if these changes are to be made, there would be special political advantage in making them now.

75. We feel strongly the heavy responsibility that attaches to us in urging action in this matter. But we feel no less strongly that this responsibility is only apparently greater than that involved in doing nothing. To refrain from interference will be to give our sanction to changes as numerous and as important, as those that would arise from following the course we advise. In the circumstances with which we have to deal, it is not possible to apply the principle of *laissez faire* ; every Currency Law is a departure from it ; and no real escape can be found from an exercise of our control over the currency, whether we submit to the evils which we have pointed out or adopt the means for avoiding them.

XXXIII.

DESPATCH FROM THE SECRETARY OF STATE FOR INDIA, No. 502, DATED THE 18TH DECEMBER 1879.

In your letter dated the 9th of November 1878, No. 423, Your Excellency brought to my notice the great difficulties in which India was placed through the fall in the price of silver, and the heavy loss devolving on your Government in effecting the necessary remittances to this country, and you made proposals of a very important character entailing a change in the standard of value and an alteration of the law regulating the currency, by which you were of opinion that the evils would be effectually remedied.

2. While recognising the force of the arguments with which your proposals were laid before me, I yet felt it impossible to deal with the subject from an exclusively Indian point of view, considering the numerous interests involved; and I accordingly lost no time in forwarding your letter to the Chancellor of the Exchequer, in order that the question might be taken into consideration in regard to its bearing on the relations of the United Kingdom with India and on British commerce as well as Indian trade.

3. Your further letter of the 28th January 1879, No. 34, impressed upon me the urgency of a decision before the financial measures of the year 1879-80 were determined on. Feeling it impossible to authorise your Government to proceed in the direction suggested, before time had been allowed for a full investigation of the matter, I communicated to you in two telegrams, dated the 13th of February and the 19th of May last (quoted in the margin), my inability to approve the measures recommended by Your Government.

13th February.—Yours 29th January. By no means insensible to the importance of your proposals for currency legislation, which are under careful consideration.

An immediate decision in the face of strongly conflicting opinions is impossible. Time for collection and verification of facts essential to a sound conclusion.

The question of appreciation of gold as well as depreciation of silver must be dealt with, and occupies the attention of many competent authorities.

Will communicate with you from time to time on progress of enquiry, and possibly we may find some means of strengthening exchange and partially relieving pressure.

19th May.—Departmental Committee has unanimously reported against your Currency proposals and I accept report.*

* Copy enclosed.

letter, and that the questions discussed remain open for their consideration in case of need arising.

5. In the meantime circumstances have greatly changed. The price of silver has, for the present at any rate, improved; and it may be hoped that some of the causes which led to the extreme depression are passing away. When the expected deficit is left to your Government no alternative between the imposition of extra taxation while a large portion of the population was still suffering from the effects of recent famine, and measures which

would, in your opinion, remove for ever the risks attendant on the fluctuating price at which the bills on your Government could be sold in London, you were naturally reluctant to resort to the former course. The country has, however, now been blessed with an adequate and in many places, abundant harvest. The revenue appears to be in a flourishing condition, and your financial arrangements for the ensuing year are being prepared on a different basis from that on which you were forced to act a twelve-month ago.

6. In these circumstances it appears to me that were I to comment in detail on the arguments and proposals contained in your two letters, it would merely lead those engaged in the arduous duties of administration to employ themselves in defending or refuting principles which it has been concluded not to accept, and it is only necessary, therefore, for me to convey to Your Excellency the decision of which you are already aware, that Her Majesty's Government cannot authorise the change which you proposed in the currency system of India.

RESOLUTION.

At a meeting held at the India Office on Wednesday, the thirtieth day of April 1879, the Committee appointed by the Secretary of State for India and the Chancellor of the Exchequer to consider certain proposals of the Indian Government relating to the Currency of India, agreed to the following Resolution :—

(1) That this Committee having examined the proposals contained in the despatch from the Government of India are unanimously of opinion that they cannot recommend them for the sanction of Her Majesty's Government, and desire to report this opinion to the Secretary of State and the Chancellor of the Exchequer, and await further instructions.

(2) Your Committee desire to append various papers prepared for the use of the Committee.

LOUIS MALLET.

EDWARD STANHOPE.

T. L. SECCOMBE.

R. G. WELBY.

T. H. FARRER.

R. GIFFEN.

ARTHUR JAMES BALFOUR.

No. 8630, dated 24th November 1879.

From—SIR H. SELWIN IBBETSON, BART., Treasury Chambers, London,
To—The Under-Secretary of State for India.

I am directed by the Lords Commissioners of the Treasury to request you to inform the Secretary of State for India in Council that they have

given their most attentive consideration to the proposals of the Government of India contained in their despatch of the 9th November 1878.

Those proposals have been, as you are aware, referred, by agreement between the Chancellor of the Exchequer and the Secretary of State, for special consideration to certain officers of the Imperial Government, and of the Department of the Secretary of State, who report that they are unanimously of opinion that they cannot recommend them for the sanction of Her Majesty's Government.

My Lords have read with care the papers which accompany this Report, and they proceed to offer their own remarks upon the difficult question submitted for the decision of the Secretary of State. They can assure the Secretary of State that they have endeavoured to study the problem before them with a view to the interests of India alone, irrespectively of any convenience or inconvenience which the adoption of the proposed measure might cause to the United Kingdom as using a single gold standard.

The Indian Government begin by referring to a previous Financial despatch of the 9th November 1876, in which proposals of a nearly similar character were discussed and rejected. It is open to question whether, in the present despatch, they do not understate the positiveness of the opinions expressed in the former one, and, still more, whether they do not underrate the gravity of the objections brought forward in that despatch.

I.—Nature of the evils demanding attention.

They next describe the "present difficulties and prospective risks," or, as See paragraph 23 of the despatch, my Lords would prefer to term them, the line 1. more remote consequences attending the maintenance of the existing currency law.

They say that the fall in the value of silver which took place in 1878, and which brought down the rupee to a See paragraph 5, line 6. value hardly greater than that which it had in July 1876, forced on their attention the serious nature of the risk which that law entails on India by its practical effects on the Home remittances. They Paragraphs 12 and 13. point out embarrassing questions which may be raised if matters remain as they are—such as increase of taxation, readjustment of taxation, and revision of salaries; and they touch briefly on the effects of the depreciation of silver (1)

Paragraphs 15, 16, and 17. upon the value of Government securities, and (2) upon the trade of the country.

My Lords need not point out that a change of the currency laws is one of the most difficult tasks which a Government can undertake, and that it is most unadvisable to legislate hastily and under the influence of the pressure of the moment, or of an apprehension of uncertain consequences in a subject so complicated in itself, and so important in its bearing upon the community in its bearing upon the transaction of business. To justify such a change it should be proved by argument, and by facts, not only that the actual state of the currency is causing it to be an evil or danger, but further, that such evil will not cure itself, and that it is one which cannot be removed or averted by means of less objectionable measures.

My Lords, reserving for the moment the "immediate difficulty" of Home remittances, will endeavour to try by these tests the "prospective risks," as described in the despatch.

It is not proved that increase or readjustment of taxation must necessarily be the consequence of matters remaining as they are ; for nothing is said about reduction of expenditure ; and equilibrium between income and expenditure may be regained by economy of expenditure as well as by increase of taxation. Further, the cost of increase of salaries may be met, or at least reduced, by a careful revision of establishment.

What is actually occurring confirms this observation, for my Lords are glad to learn the energy and earnestness with which the Government of India are directing their attention to those points ; and they trust that success will attend their efforts.

Again, as regards the borrowing power of the Government of India, it may be observed that the present depreciation of silver stocks in England proves nothing with respect to future borrowing in silver ; and although the fluctuation in the price of rupee paper may, no doubt, have some effect on the borrowing power of the Government of India, it would not by itself justify a manipulation of the currency laws.

Further, injury to trade, an allegation of a nature admitting of proof, cannot be allowed as an argument in favour of the measure until the facts upon which it is based are produced ; and my Lords must point out that there is little or nothing in the despatch to shew the precise nature of the injury which the trade of India, in the opinion of the Government of India, has sustained through the fall of silver.

My Lords, indeed, do not understand that the Government of India rest their case upon these "*prospective risks*"

Paragraph 14. or evils, for they refer to the possible need of increased or readjusted taxation and of revised salaries, "not with any view of discussing the respective importance of these points, or how they should be dealt with, but only to indicate the nature of some of the more prominent difficulties which have been caused, and which must continue to arise if the present state of things is left without a remedy."

They say, further, that they are not "proposing any elaborate discussion of the many forms in which the value of silver, with the uncertain prospects of its

Paragraph 15. value in future, affects public interests in India."

It appears, however, to my Lords that, in dealing with so practical a subject, those arguments only should be stated which have been fully considered, which are intended to be discussed, and which are put forward seriously in support of the measures proposed. They feel sure that Lord Cranbrook will agree with them that legislation of so critical a character could not be justified on a mere indication of possible or probable risks lightly sketched in two or three paragraphs of a despatch. They submit that, so far as the "*prospective risks*" are concerned, the burthen of proof lies with the Government of India, and that, so far, no case is made out by them which can be held to recommend their measure to favourable consideration.

My Lords, therefore, pass on to the consideration of the one remaining argument upon which the despatch relies, *viz.*, the argument based upon the increased cost of the Home remittances.

The Government of India state that India is now taxed, for the purpose of these remittances, from 2,000,000% to 3,000,000%, and it may be 4,000,000%, more than would have been necessary if the old rates of exchange could have been maintained.

Paragraph 10.

They point out the political inconvenience of this gradually increasing burthen, aggravated, as it further is, by the uncertainty of its amount, and the impossibility of foreseeing the fluctuation of the exchange, and they urge that it may at any moment become the cause of the most grave financial embarrassment, especially at the present time, when political events may throw upon India new burthens of unusual magnitude.

Paragraph 22.

They state that they cannot look for a recovery in the value of silver; and they proceed to inquire "whether any practical remedy could be devised that should not be open to serious objections, or the risks attending the adoption of which should not be so great as to prohibit it."

Paragraph 8.

Paragraph 23.

They add that "they feel most fully the heavy responsibility that will rest on them in dealing with the currency of India, but it is plain that the responsibility for doing nothing is no less great. Whether the law is left as it is, or whether it is changed, the result will be equally due to their action, and they cannot, if they would, avoid facing this grave question."

Paragraph 23.

Finally, after weighing various proposals, they are led to the general conclusion that it will be practicable, without injury to the community as a whole or risk of future difficulties, to adopt a gold standard, while retaining the present silver currency of India. For that purpose they would suspend or limit the coinage of silver until they had artificially raised the value of the rupee from 1s. 7d. to 2s. in gold.

Paragraph 46.

The gravity of the conclusion at which the Government of India thus arrive can scarcely be overrated. The Secretary of State will, therefore, not be surprised if my Lords criticize somewhat closely the arguments upon which they found their recommendation.

In the first place, they cannot but think it somewhat too hasty a generalisation to decide now once and for all the future of silver.

My Lords are not aware, as stated by the Government of India, that "the current of all the most trustworthy opinion tends more and more towards the conclusion that, so far as can now be foreseen, there is no prospect of any early or complete recovery in the value of silver, and, on the contrary, that the probabilities are all in favour of a further fall."

They cannot accept this as a valid argument in support of such action as the Government of India propose. The rise in the silver market, which has occurred since the despatch was written, is itself an illustration of the danger of sweeping statements, and of the uncertainty of premature prophecy.

In the next place, the Government of India reckon the loss on the Home remittances at from 2,000,000*l.* to 3,000,000*l.*, or possibly 4,000,000*l.*, a year. This statement of loss by exchange is emphasized and rendered more specific by the Budget for 1879-80, which contains the following paragraphs:—

"The loss caused by the further and great fall which has taken place in the value of silver in relation to gold is a far more real and serious cause of financial embarrassment.

"The loss by exchange on the estimated amount of the Home remittances in the coming year is 3,947,368*l.*; it would have been 4,142,000*l.*, if provision were made for remittances to cover the whole of the current Home charges. The latter sum is more than would have been required for the remittance of the same amount in the year before the long-standing equilibrium between gold and silver was violently disturbed. So far as these remittances are required to meet fixed payments, such as interest, pension

and the like,— and such fixed payments constitute the bulk of the Home charges—it may be said that this great sum of 3,324,000*l.* represents the yearly taxation now required in addition to what would have been necessary if the old rate of exchange had been maintained.

“ In the financial statement published at the beginning of the present year, it was shown that the Government believed that a *bond fide* surplus of nearly 2,000,000*l.* of income over expenditure had been secured; and of this sum 1,500,000*l.* was to be annually set aside as a special provision against famine. This apparently very satisfactory result was brought about partly by administrative improvements, but mainly by the imposition of new taxation, estimated to yield, eventually, about 1,100,000*l.* a year (see paragraph 160). The Government then hoped that it saw its way to giving to the country the most complete protection which could be devised against the terrible calamities of famine to which it is periodically exposed. It was also sanguine that many reforms were within our reach which would be in the highest degree beneficial.

“ Although the condition of the finances continues in other respects to be favourable, the fresh fall in the value of silver in relation to gold has, as has been shown, virtually swept away the financial improvement arrived at with so much difficulty. It may be considered that the whole of the new taxation has been swallowed up in the additional charges on account of loss by exchange. The net amount yielded by this taxation in the present year was, as has been stated in paragraph 160, about 971,400*l.*, and it is estimated at 1,077,400*l.* for 1879-80. To remit the whole of the amount required to meet the Home charges in the coming year, it has just been shown that the sum of 1,364,362*l.* would be required in excess of the estimate of last year. The insurance provided against future famine has virtually ceased to exist; and the difficulties in the way of fiscal and commercial and administrative reform have been greatly aggravated. Nor can it be in any way assumed that the evil will not continue and go on increasing.

“ Under such circumstances it is extremely difficult to follow any settled financial policy; for the Government cannot even approximately tell what income will be required to meet the necessary expenditure of the State.”

It does not appear, from the despatch or from the Budget statements, how these figures are arrived at, and it would therefore be desirable to ascertain—

- (1) The estimated amount of Home remittances for 1879-80.
- (2) The items of which that amount is composed.
- (3) The method in which the loss by exchange stated in the paragraph from the Budget quoted above at 3,957,000*l.* is computed; whether it is obtained by comparing the number of rupees at the date of the despatch required to make up the sterling remittances with the number which would be required if the rupee were equal to 2*s.*, and by then converting the difference in the number of rupees into sterling at the rate of 2*s.* the rupee.

There is room for difference of opinion upon this point; but whatever may be the true rate, it certainly is not 2*s.*; and if the computation has been made upon that arbitrary assumption, the real loss must be less than the sum stated in the Budget.

Again, it must be borne in mind that the loss, whatever it may be, does not apply to all Home remittances alike.

It does apply in full force to *permanent* gold contracts, such as for the payment of interest on debt, into which the Government of India have entered, for as to these payments the Government has no discretion; but it does not apply with equal force to purchase of stores and other terminable contracts, as to which the Government retained greater freedom of action.

There is another question which has an important bearing upon the extent of the loss entailed upon the Indian Government, but to which the Indian Government make no reference, and to which my Lords cannot now do more than briefly allude.

It has not yet been established whether the variation in the relation between gold and silver may not have been caused by appreciation of

the former metal as well as by depreciation of the latter, or by a combination of both. If appreciation of gold, or a rise of gold in conjunction with a fall of silver, enter into the calculation, the effect on the loss by exchange must evidently differ from that caused by depreciation of silver alone.

The case, in short, is not so simple as the Government of India seem to suppose, and the various points noticed must be much more carefully analyzed and discussed before it can be admitted that India, or even the Government of India, suffers to the extent supposed.

Nor can my Lords admit that the responsibility for doing nothing is as great as that for doing something. The present evils are not (immediately, at all events) the results of any Governmental action, while the responsibility of the proposed scheme would rest wholly with the Government. Of one thing my Lords are sure, that it is better to sit still than to have recourse, under the influence of panic, to crude legislation, the result of which cannot be foretold, and the effect of which cannot be measured.

There is one more remark which my Lords desire to make. A perusal of the despatch leads irresistibly to the conclusion that the Government of India are specially anxious to put an end to the competition of silver against their own bills as a means of remittance to India, and that the main object of their scheme is the establishment of a monopoly of remittance, which would enable them to put their own price upon their bills, and thus avoid the undoubted inconvenience to which they are now exposed by the depression of, and the fluctuations in, the market rate. But my Lords must ask whether this would be more than a transfer of their own burthen to other shoulders; if so, who would eventually bear the loss, and what would be the effect on the credit of the Government and on the commerce of India?

All these are important questions, and they appear to have escaped the attention of the Government of India; but while they are ignored it will be impossible to arrive at a right understanding of the problem, and the problem therefore cannot be solved until they have been discussed and answered.

So far, then, the case of the Government of India is not proven, and my Lords cannot advise the Secretary of State to approve the proposal of that Government, inasmuch as they have not shown that it is rendered necessary, either by the immediate difficulty or the prospective risks attending the maintenance of the law as it is.

II.—Examination of the Proposed Measure.

But though my Lords do not think that the Indian Government have made out their case, they nevertheless readily admit that the difficulty which embarrasses them in the matter of remittances to England is one which naturally attracts attention. In so far as that difficulty exists it undoubtedly affects the means of the Government, and forces upon them the consideration of questions which, whatever their proper solution may be, would not have arisen but for the loss which the fall in the relative value of silver as compared with gold causes to India—a silver-using country, in her remittances to England—a gold-using country.

They observe that the Government of India has contracted to make certain payments in gold, and that in order to do so they must obtain and remit to this country a certain quantity either of gold itself or of commodities equal in value to that quantity. If one of the commodities which they so remit should fall in value, it is obvious that they must remit a larger quantity; and, silver being a commodity, and, in the eyes of England, nothing but a

commodity, it follows that the Government of India, if they pay their English debts in silver, must remit more when it is of small value compared to gold than they need do when it is of greater value.

But while England can only regard the silver as a commodity, in India it is also the accepted measure of value, and numerous and important contracts have been entered into in that country, for all of which silver is the standard. More particularly the great bulk of the revenue of India is assessed upon a silver basis. Land-owners are under contract to pay fixed annual amounts of silver; tax-payers are required to pay so much silver upon every taxable article which they consume; and so, when silver falls in value, the revenue will, at least in some of its most important branches, fall in value too, and the Indian Government will have greater difficulty in making its foreign payments to gold-using countries.

If the question of the loss by exchange be reduced to its simplest elements, it will appear that India has to remit to England, in some form or other, as much silver as is equal in value to a certain amount of gold. If at a given time 10,000,000 rupees are equal to that amount, she need only remit those 10,000,000 rupees. If silver should fall 50 per cent. in value, while the amount to be made up in gold remains constant, she must remit 15,000,000 rupees. If, then, she has no power to diminish the amount which she must pay in gold, there are only two kinds of relief conceivably open to her—she must either take measures to procure herself a larger quantity of silver, or she must take measures to promote a rise in its value; by which term my Lords mean its real value as a commodity, since it is only the real value which can be or will be considered by the European creditor to whom it is to be paid.

With regard to the second alternative, my Lords will not now enquire whether it is possible, by any manipulation of the Currency laws of a country, to raise the value of the metal of which that currency consists; but they are distinctly of opinion that the proposal now made by the Indian Government, to limit the use of silver in one of the most important purposes to which it is applied, can have no such effect, but must, on the contrary, have a tendency to reduce the real value still further, and so to aggravate, instead of mitigating, the evil complained of.

On the other hand, adopting the first alternative, it is evident that any plan for bringing into the Treasury an additional quantity of silver by artificial currency regulations ought to be very narrowly scrutinised, and ought not to be adopted without much fuller examination than the Indian Government appear to have given to the measures described in the despatch under reply.

Yet it is clear, as my Lords think, that it is only in this way that the proposals which have been made could possibly be expected to afford relief. They do not purport to call upon the European creditor to forego any part of the gold, or silver at its true value in relation to gold, to which he is now entitled. They are not calculated to enhance, but rather to diminish, the real value of the silver of which the Indian Government has the command. They can, therefore, only be expected to operate by giving that Government the power to command a larger quantity of the metal, and thus enabling it to shift the burden of its present loss to the shoulders of some one else.

The Government of India appear, at one point, if my Lords understand paragraph 39 of the despatch aright, to contemplate, under certain circumstances, an increase in the quantity of silver to be put into the rupee. They

state that there is a comparatively easy and certain method open for correcting the evils that arise from a depreciated silver currency, namely, the gradual addition to its weight. This they seem to think could be carried out by degrees, and without cost to the State, to any extent thought expedient, within the practical limits of the coining power of the Mints. It is hardly worth while, however, to pursue this suggestion further, since, in paragraph 24, they say that the increase to the weight of the rupee is undeserving of attention, as, in fact, it would give no security for the future, and would entail a heavy charge without accomplishing the essential point to be aimed at.

But the argument given in paragraphs 40 and 41 in defence of the justice of a change which would materially affect existing and long-standing contracts requires notice. The Government of India say that those who have seen the value of the rupee fall in a few years from 2*s.* to 1*s.* 7*d.* may, without their sense of justice being questioned, ask to have the contracts made at the former rate protected, if not by a restoration of things to the position in which they were five or six years ago, at all events to the extent of giving security against further loss, this restoration being effected by interference with the currency.

The doctrine set forth in these paragraphs appears to my Lords to be both novel and dangerous. It would have justified the creditors of the State if, at the time of the great discoveries of gold in California and Australia, they had claimed a revision of their contracts in order to restore them to the position they occupied before the fall in the price of gold; and it would, if admitted, place the State in a most inconvenient and even perilous position, by assigning to it the duty of from time to time adjusting the currency to what might appear to the Government of the day to be the demands of justice or equity. It can hardly be necessary for my Lords to enlarge upon the consequences which might, or indeed must, result from such an undertaking.

My Lords might stop here, but it will probably be for the convenience of the Secretary of State that they should offer some more particular remarks upon the remedy which the Government of India have devised.

The Government of India propose that the free coinage of silver shall be restricted, so that the rupee shall no longer remain, as at present, simply a piece of silver of a given weight and fineness, but shall, in addition to these qualities, bear a fixed relative value to the English sovereign, and that this relation shall be one-tenth, or, in other words, that the rupee shall be equal to 2*s.* in gold.

The despatch describes in detail the mode in which this change is to be effected, but, in doing so, it suggests important questions of principle, to which it hardly supplies the answers.

1. The proposal appears to be open to those objections to a token currency which have long been recognised by all civilized nations, *viz.*, that instead of being automatic, it must be "managed" by the Government, and that any such management not only fails to keep a token-currency at par, but exposes the Government which undertakes it to very serious difficulties and temptations.

2. It appears to my Lords that the Government of India, in making the present proposal, lay themselves open to the same criticisms as are made upon Governments which have depreciated their currencies. In general, the object of such Governments has been to diminish the amount they have to pay to their creditors. In the present case the object of the Indian Govern-

ment appears to be to increase the amount they have to receive from their tax-payers. My Lords fail to see any real difference in the character of the two transactions.

It will perhaps be stated in reply to this question that the value of the rupee has not fallen in India, and that, consequently, when the rupee is fixed at 2s., neither the tax-payer nor the debtor will have more to pay than they now pay. If this reply be made, it may be asked in the first place whether the exchange value of the rupee before the recent fall in silver was not 1s. 10½d., and not 2s., and in the next place how a contraction of the Indian currency, which can have no operation out of India, and which is to have no effect in India, can alter the exchange value of the rupee in business transactions with England?

As a matter of fact, the rupee has, for the last few years, been depreciated for purposes of foreign exchange, whilst, according to the above supposition, it has maintained its value in India. How, then, can a measure which only purports to maintain the value of the rupee in India prevent its being depreciated for purposes of exchange with England?

If, on the other hand, it is the case that the value of the rupee has fallen in India, and that it will be raised in India by the operation of the proposed plan, that plan is open to the objection that it alters every contract and every fixed payment in India.

This proposal is, in fact, contrary to the essential and well-established principle of the currency law of this country, which regards the current standard coin as a piece of a given metal of a certain weight and fineness, and which condemns as futile and mischievous every attempt to go behind this simple definition.

It is perfectly true, as stated in the despatch (paragraph 41), that "the very essence of all laws relating to the currency has been to give fixity to the standard of value as far as it is possible"; but it is no less true that, according to the principles which govern our currency system, the best and surest way, and indeed the only tried and known way, of giving this fixity is to adhere to the above definition of current standard coin. A pound is a given quantity of gold, a rupee is a given quantity of silver; and any attempt to give those terms a different meaning is condemned by experience and authority.

3. If the present state of exchange be due to the depreciation of silver, the Government scheme, if it succeeds, may relieve—

- (1)—The Indian Government from the inconvenience of a nominal readjustment of taxation in order to meet the loss by exchange on the Home remittances:
- (2)—Civil servants and other Englishmen who are serving or working in India, and who desire to remit money to England:
- (3)—Englishmen who have money placed or invested in India which they wish to remit to England.

But this relief will be given at the expense of the Indian tax-payer, and with the effect of increasing every debt or fixed payment in India, including debts due by raiyats to money-lenders; while its effect will be materially qualified, so far as the Government are concerned, by the enhancement of the public obligations in India, which have been contracted on a silver basis.

4. It may be further objected that if there are hoards of silver coin in India, the operation of this plan will draw them into the circulation, and so prevent or retard the operation of the proposed remedy; and as a forged or

smuggled rupee will be physically identical with a legal rupee, there will be unprecedented temptations to forging and smuggling. The operation of these different causes may not improbably bring a number of rupees into circulation and so render the success of the proposed measure extremely doubtful.

5. Finally, the Indian Government propose, apparently in doubt of the manner in which the scheme will operate, to take power to modify or put an end to it by executive action. But my Lords submit that in a matter of such importance, and involving such wide and serious consequences, it would be most unadvisable to take a step of this description in a tentative spirit, and without distinct views concerning its operation and results.

If, then, a case had been made out, which my Lords do not admit, for an alteration of the Currency Law of India, the particular alteration which the Government of India propose could not, in the opinion of the Treasury, be entertained until the doubts and objections which have suggested themselves to my Lords are answered and removed. Those objections are founded on principles which have been long and ably discussed, and which are now generally admitted by statesmen and by writers of accepted authority to lie at the root of the Currency system.

It is no light matter to accept innovations which must sap and undermine that system. And my Lords have therefore felt it their duty plainly—though they hope not inconsistently with the respect due to the Government of India—to express their conviction that the plan which has been referred to them for their observations is one which ought not to be sanctioned by Her Majesty's Government or by the Secretary of State.

XXXIV.

MEMORANDUM BY MR. R. B. CHAPMAN, C.S.I., ON AN INTERNATIONAL BIMETALLIC STANDARD MEASURE OF VALUE, DATED 2ND JUNE 1880.

By his despatch No. 502, dated 18th December 1879, Lord Cranbrook formally intimated to the Government of India that the Committee appointed to examine the proposals made by Government of India in despatch No. 423, dated 9th November 1878, for the limitation of the coinage of silver at the Indian Mints, had reported, unanimously, against those proposals, forwarded a letter from the Lords Commissioners of Her Majesty's Treasury reviewing those proposals in detail, and stated that Her Majesty's Government had decided not to authorise the change advocated by the Government of India in the Currency system of India. This decision had been already communicated to the Government of India by telegraph on the 19th May 1879. The Secretary of State has not yet made any comments upon the more elaborate discussions submitted by the Government of India to Her Majesty's Government in despatch No. 368, dated 13th October 1878, of the effects upon the interest of India of the disturbance of the relations between gold and silver, and its possible remedies.

2. In his despatch No. 502, Lord Cranbrook wrote, with reference to the aforesaid letter from the Lords Commissioners of Her Majesty's Treasury (paragraph 4)—

“It must be understood that the Members of my Council are uncommitted to the facts and arguments of that letter, and that the questions discussed remain open for their consideration in case of need arising”;

and in a later despatch, No. 36, dated 5th February 1880, in which he rejected a request made by the Bombay Chamber of Commerce “that an opportunity might be afforded to them of offering their opinion on the measures submitted by the Government of India in connection with the fall in the price of silver in relation to gold,” Lord Cranbrook added (paragraph 3)—

“The question, however, of the Indian exchanges and their position with regard to the supply of silver is one which is continually before me; and I shall, at any time, be ready to give a very careful consideration to any views which the Chamber may desire to present to Her Majesty's Government on the subject.”

The importance of the question is, indeed, such that it can seldom be absent from the minds of any one engaged in the financial administration of British India; and the Secretary of State will, doubtless, gladly consider any suggestions which the Government of India may make for its solution, which seem to contain the promise of any useful result.

The question does not, just now, assume so urgent an aspect as it has sometimes done, and as it may do again any day; but, in some respects, this makes the occasion only the more suitable for its discussion.

The Hon'ble the Financial Member has, accordingly, invited me to place on record the views which have, after long study, been forced upon me by an ever-present sense of the danger, to which not only the finances, but all the domestic interests of British India are exposed, so long as the chief national standards of value are in their present isolated and unprotected condition.

In the following remarks, I shall not refer again in detail to the two despatches from the Government of India, Nos. 363 and 423, or to the criticisms by the Lords Commissioners of Her Majesty's Treasury upon the later despatch, excepting only to say that, inasmuch as the earlier despatch expressed generally, and, in the main, still expresses, my convictions, I necessarily sympathise with the preference manifested by the Lords of the Treasury for the conclusions stated in the earlier despatch, in so far as they differ from the recommendations contained in the later despatch.

3. In dealing with the subject, it is necessary to bear clearly in mind the distinction between the use of any substance as a standard measure of value and its use as money, that is to say, as an instrument for the transfer of value measured by such a standard. Money may be represented by various instruments possessed of no intrinsic value; and value is, for the most part, actually transferred, by means of such representative instruments as bank or currency notes, bills and cheques, or, even, without the intervention of such instruments at all, by entries in bankers' books and at clearing-houses. All such devices are independent of the standard measure of value itself, which is, by the hypothesis, fixed, and can only be altered, by legislation.

4. It is, also, important to distinguish clearly between money proper— which must be made of the substance of the standard itself — and the various devices employed for representing money. Money proper, of the substance of the standard, alone possesses an original, inherent, and intrinsic legal tender force, *vis liberatrix*, or, as the French call it, *force liberatoire*. The various representative expedients have only a derivative *vis liberatrix*, possessed in virtue, not of any inherent quality of their own, but solely of their convertibility into money proper. Hence, money proper is alone capable of permanently storing value, and of transporting it from one country to another. Bills of exchange cannot do this; they only set off value existing in one country against value existing in another country.

5. A sufficiently general and permanent adoption of any substance as a standard measure of value, by ensuring its employment as money, and, so, for hoarding, greatly enhances its value; but any confusion between the objects and attributes of a standard measure of value, and the objects and attributes of money, whether real or representative, must involve the erroneous treatment of any problem regarding such matters. The object of a standard measure of value is to regulate all contracts subject to the standard, expressed in money; money, and the various devices representing money, are only the instruments by which value is hoarded, transported or exchanged, according to the standard.

6. Every civilised nation, at present, uses, for its standard measure of value, either silver, or gold, or some combination of these metals; and, as the value of these metals themselves depends, immediately, almost wholly upon their employment as standard measures of value, and, therefore as money, the substitution of one for the other by any important community inevitably enhances the value of the adopted metal at the expense of that

of the rejected metal, and thus, by a double effect, disturbs the relations between the two metals. Moreover, apprehensions, that such a substitution by one community may lead to similar substitutions by other communities, are likely to intensify its opposite effects upon both metals.

7. There is not now, it is believed, any doubt—(1) that the longstanding equilibrium between gold and silver continued till 1873, generally because, whilst it prevailed, no considerable change took place, throughout the world, in the several national standards of value, and specially, because the French Monetary Law of 1803 provided for the constant optional interchange of the two metals at a fixed ratio; or (2) that the disturbance of that equilibrium since 1873 is the consequence of the substitution of gold for silver as the standard measure of value in Germany, followed by the closure of the Mints of the Latin Convention to the less valuable metal, and the withdrawal of the optional interchange of the two metals heretofore allowed within the jurisdiction of that Convention.

8. Appended to the Resolution of the Government of India in the Financial Department, No. 3044, dated 22nd September 1876, are statistics of the course of wholesale prices of certain typical commodities measured in gold and silver, before and after the disturbance of the equilibrium of gold and silver in 1873. In the 19th paragraph of that Resolution the Government of India stated that those prices indicated that gold had, till then, risen in value since the equilibrium of the precious metals had been disturbed; and that there was, at that time, no evidence that silver had fallen in value either in India or, even, in London.

9. In Table I appended to the present Note, the prices and values of the commodities then quoted for April 1876, are compared with their corresponding prices and values in December 1879, being the latest figures at hand for both India and Great Britain. There has been a re-action in some of the prices quoted in India, which appears to be chiefly due to the recent unfavourable seasons; but in only nine* of the eighteen examples quoted are the values of commodities measured in silver, even now, higher than they were in March 1873. It is unnecessary to examine these phenomena further in detail, because little could be added to Mr. Robert Giffen's able analysis of wider facts of the same character, in his paper read before the Statistical Society on the 21st January 1879, and printed at page 36 of the Society's Journal for that year. Since that date, however, there has been a decided rise in prices; in other words, a decided fall in the value of both metals.

10. There appears to be no room, now, to doubt the correctness of the conclusion which the Government of India confirm the conclusion of announced more than three years ago, or that it 1876. is still true that the value of gold has rather risen than fallen since 1873, and that, contrary to general expectation and popular belief, the value of silver has also risen, and has not, even yet, fallen; in short, that of the five possible causes, to one or other of which the Government of India said, in the 6th paragraph of the Resolution of September 1876, that the disturbance of the equilibrium of the precious metals must be

* In *England*, Beef, Sugar, and Saltpetre; and in *India*, Spelter, Hides, Jute, Rice, Linseed, and Wheat.

due, the first is as yet still the actual cause, namely, *while the value of both metals has risen, the value of gold has risen more than that of silver.*

11. This conclusion is one of fact only. It would, indeed, be folly to base any action upon such facts without first forming a judgment upon the influences which have produced them, in order to an opinion, specially, whether these influences are permanent or only temporary. But it is essential to a profitable and practical discussion of the present problem not to confound the comparatively simple question, whether the value of the precious metals has or has not risen or fallen, with the complex question, what influences may have produced either results. Regarding these influences, there are likely to be almost as many opinions as there are men; and an answer to the question, whether they will operate permanently or only temporarily, may be difficult, and can never be more than a mere opinion. But an answer to the question whether, as a matter of fact, prices have, on the whole, risen or fallen,—in other words, whether the value of gold and silver has increased or decreased,—is comparatively easy; and it is only with the facts, and their consequences, that we are, in the first instance, concerned.

12. It is strange that such phenomena should be frequently discussed, even by experts, as if an increase in the value of any commodity relatively to the rest of commodities as a whole, could be attributed to a fall in the value of the body of commodities to the exclusion of the conception of a rise in the value of the excepted commodity. It is surely as inconceivable that the value of one commodity should decrease relatively to that of another without a correlative increase in the value of the commodity compared, as that one scale of the balances should fall without the other rising.

13. Whatever, then, be the influences which have produced the present phenomena, and whether these phenomena may be expected to endure or not, it seems impossible, in the meanwhile, to dispute that the general range of both gold and silver prices are still lower, in other words, that the values of both those metals are still higher than they were in 1873.

At the same time, as it is impossible to foresee the extent to which pressure may be further transferred from silver to gold, no one can feel at all confident that silver will keep the value it has hitherto maintained, or, even, that fresh events, such for example, as the final demonetisation of silver by France, may not, as pointed out by the Government of India in paragraphs 36 to 38 of its despatch No. 368, dated 13th October 1876, make the retention by any civilised State of silver as its standard measure of value difficult, if not impossible.

14. It seems clear, then, that the loss to British India, consequent upon the phenomena under discussion, is to be attributed, as yet, specifically, to the rise in the value of gold, and the concomitant enhancement of the obligations of British India, fixed by the gold standard. The amount entered under the adjusting head Losses by Exchange, in accordance with the present system of the Indian Finance and Revenue Accounts, is not the measure of that enhancement, which cannot be ascertained by a comparison with the conventional par of $Rs. 1 = 2s.$, and must

be reckoned only upon the fixed portions of the disbursements from the Home Treasury. Thus calculated, this enhancement does not, probably, as yet, exceed $2\frac{1}{2}$ crores of rupees * a year, which sum may be taken as a full estimate of the loss to British India from the disturbance of the equilibrium of the precious-metals which existed in 1873.

15. But it must be remembered, on the one hand, that this estimate is confined to the consequences of the increase of the value of gold in excess of the increase in the value of silver, and does not include the loss due to the rise which is common to both metals; and, on the other hand, that although, owing to the metals being linked together through the French Monetary Law, there was no disturbance of their relative values, and so the fact received comparatively little practical recognition, yet there is no doubt that, in consequence of the gold discoveries in California (1848) and Australia (1851), the values of the precious metals were, in 1873, still abnormally depressed. Their present values will probably prove to be more permanent than their values in 1873.

16. The chief item of loss to British India is due to the fact that, during the period (1850—73) when the value of the precious metals was so abnormally depressed owing to the gold discoveries, that the general standard measures of value were perhaps 25 per cent. below their usual range, India borrowed, for the suppression of the Mutiny and construction of Railways, 164 $\frac{1}{4}$ millions sterling, on which India must continue to pay interest, at the covenanted rates, by standards which have nearly, if not quite, recovered what will probably be found to be their normal values. The burden has, however, been mitigated by the subsequent reduction of the rate of interest on most of these loans, excepting some of the Guaranteed Railway Loans; and it cannot be confidently assumed either that India would have been able originally to borrow on the same terms if the range of the standard measures of value had not been depressed, or, on the other hand, that the subsequent reduction of the rates of interest upon those loans would have been possible if there had been no intermediate recovery of the values of the precious metals.

17. The grounds upon which it is considered that British India would be benefited by the adoption of an international bi-metallic standard measure of value may now be discussed. Two practical advantages are anticipated from the adoption of such a standard by all nations or even by the leading commercial nations:—

First.—Fluctuations of exchange between the moneys of different countries would be confined within narrow limits.

Secondly and principally.—The standard measure of value would gain immensely in that stability which is, above all things, to be desired in a standard.

* NOTE.—This estimate is thus made—

Net yearly obligations of the Home Treasury Fund fixed in sterling, about	£11,750,000
Equals, with silver at—	
50 <i>d.</i> an oz. (exchange about 1 <i>s.</i> 7 <i>d.</i>)	Rs. 14,66,00,000
60 <i>d.</i> an oz. (exchange about 1 <i>s.</i> 11 <i>d.</i>)	„ 12,22,00,000
Loss, upon the assumption that the fall in the exchange is due, exclusively, to a rise in the value of gold	Rs 2,44,00,000

18. Speaking, first, of fluctuations of *international exchange*, it is unnecessary to dilate upon the inconvenience which they cause to trade. Possibly, indeed, this inconvenience may some times be over-estimated; for the direct effect of a fluctuation is confined to engagements already contracted and in course of fulfilment; it can only affect subsequent transactions by inducing apprehensions that renewed fluctuations may vitiate the calculations upon which they are undertaken. Not only, however, are such apprehensions, often, sufficient to paralyse trade, and not only must repeated fluctuations cause serious and unmerited losses to honest traders, but which is, perhaps, worse, uncertainty as to the international exchanges introduces an avoidable element of speculation injurious to sober, prudent and honourable, and, therefore permanently profitable commerce.

19. Fluctuations of exchange between two countries must be mainly due to variations in the standard measures of value of one or both countries. If two countries use one standard measure of value*—whether they use the same unit or not is a matter of little importance—the fluctuations of the exchange between them cannot exceed the narrow limits of the cost of transporting the material of the standard from one country to another. Such stability of exchange is a considerable advantage; but it is important not to exaggerate its scope, or to forget that fluctuations of international exchange might be, thus, almost wholly eliminated, not only without any improvement of the stability of the common standard measure of value, which is its only indispensable attribute, but even with a simultaneous deterioration of that characteristic.

20. The international bi-metallic standard measure of value, actually, to a great extent, prevailed throughout the whole world, as long as the French Monetary Law of 1803 was in operation. This truth may not, even yet, be generally recognised; but it is indisputable that, so long as gold and silver were freely interchangeable in France, at a fixed ratio, that ratio, necessarily, governed the relations of the two metals, and therefore the value of each throughout the world. The sole gold standard of England and the sole silver standard of India were, alike, wholly subject to the influence of the French Law, and not, as has been supposed, independent of it: the values of England's gold and India's silver were absolutely controlled by the French Law.

21. Doubtless, that law only could operate freely and fully, while France possessed sufficient stores of both metals. Before the gold discoveries of 1848 and 1851, the French Monetary Law had ceased to maintain the value of silver measured in gold, which commanded a small varying premium; and had the gold discoveries of California and Australia been repeated conversely, as her silver stores were exhausted, the French Monetary Law would have, in like manner, ceased to maintain the value of gold measured in silver. But this only shows that the demand for metallic, that is, intrinsic money, in France alone, great as it is, is not sufficient to maintain such a law per-

* Of course the conditions on which standard money can be coined in the countries must be stable. It is not enough that the same substance should be used; the conditions must be invariable. tries ad-

manently, under all circumstances ; and must not be allowed to obscure the fact that the French bi-metallic law alone did confine fluctuations in the relative values of gold and silver throughout the civilised world, for three-quarters of a century, within narrow limits.

22. In theory, however, the bi-metallic standard of value is not, in any sense, indispensable for the elimination of all avoidable fluctuations of exchange. Manifestly the same result would be attained by the use of any other common standard, say, for instance, either gold or silver. In order that there may be no substantial fluctuations of exchange between two or more countries, the one and only thing needful is that they shall measure value by one standard, whatever that standard may be ; and no other device will prevent such fluctuations.

23. But, obviously, the degree of stability of an international standard measure of value must depend entirely upon the particular standard selected. This suggests the second and principal advantage which is to be expected from the adoption of an international bi-metallic standard measure of value ; namely, the vast improvement of that stability of the general standard measures of value which is of such supreme importance.

• 24. It has been observed that the substitution by Germany of gold for silver, as its standard measure of value, followed by what was, in effect, the same action by France and her Associates in the Latin Convention, was the immediate cause of the recent disturbance of the long-standing equilibrium of silver and gold, and so aggravated to British India the consequences of the recovery of its value by gold, which was already in progress, as to cause to it a loss upon its public obligations measured in gold, estimated at about 2½ crores of rupees a year. A loss in the same proportion was caused upon all other obligations fixed by contract or custom, by the gold standard. Doubtless, the transfer of pressure from silver to gold, which produced these inconvenient consequences, must have, proportionately, counteracted the rise in the value of silver which would, otherwise, have been greatly accelerated, and India must have obtained some compensation for the enhancement of its public gold obligations in the correlative depression of public silver obligations. But if British India be treated as a whole, only its foreign obligations need for the present purpose, be considered ; and the fixed foreign obligations of British India measured in silver, though large, bear so small a proportion to those measured in gold, that it is certain that after all sets-off, there must remain a large balance of loss caused to British India by the action, first of Germany, and then of France.

25. No one can say whether the Governments of these two countries, especially that of Germany, which originated the disturbance, fully perceived the injury to the general interests which would follow upon the change of their national standard measures of value. Inasmuch as Germany herself has suffered and is suffering, as is believed, in proportion, as much by the change of its standard measures of value as any other nation, it may perhaps be presumed that the nature and effects of that measure cannot have been altogether appreciated by its authors. However that may be, it is, surely, a most serious evil that a single nation should, by a domestic action of this kind, whether inten-

tionally or not, inflict upon other nations grievous injuries against which they are powerless to protect themselves.

26. As things now are, the stability of the standard measures of value

As it now is.

practically overthrow such

International remedy urgently required.

throughout the world is at the mercy of any single considerable nation, which can, at its pleasure, upon it. All countries alike are, however, deeply interested in the avoidance of any disturbance of the general standard measures of value; and it may be hoped that, when the vast importance of the general interests at stake is perceived, it may be possible to obtain a mutual undertaking by each nation not again, without international consultation and consent, to take any steps of this kind, involving, of necessity, the disturbance of the general bases of contracts. Certainly it would seem that this, of all others, is a matter which the comity of nations should act, under all circumstances, in common accord; and that resort should be had to all the sanctions and restrictions which international engagements can supply, in order to prevent a recurrence of the evils to which recent events show that all nations are now, helplessly, exposed.

The best international standard measure of value.

27. Thus far, the following two axioms have been established:—

- (1) That it is highly desirable that all nations should measure value by one standard.
- (2) That the common interests require that no important nation should alter its standard measure of value without the consent of the rest.

The further problem may now be considered, what would form the best common international standard measure of value, if the principal nations should agree to adopt one? This question resolves itself into the previous question, what would be the most stable possible standard; for beyond all doubt the most stable standard which is in other respects suitable, is the best standard.

28. It is unnecessary, in the discussion of this question, to go behind the

Such a standard must be gold, silver, or a combination of the two.

precious metals, or to enquire why, by general consent, gold or silver, or some combination of these two metals are in use as standard measures of value by all civilised nations, to the exclusion of all other standards. There is no doubt,—indeed, the occasion for the present argument would demonstrate the fact afresh, if such demonstration were necessary—that the value of the precious metals themselves is far from being immovable, and, therefore, that they are far from constituting perfect standard measures of the value of other objects; but, from time immemorial, better and more stable standards have been sought in vain. It would, therefore, be unprofitable to advert further to such speculations, it being, practically, certain that, in practice, among all civilised nations, the precious metals must continue to constitute the standard measures of value to which all contracts, not otherwise expressed, must be referred. In what follows, therefore, it will be assumed that the choice of the best possible standard measure of value lies practically between gold, silver and some combination of these metals.

29. The problem now to be investigated has no immediate bearing upon the fluctuations of international exchange, which can be prevented, absolutely, beyond narrow limits by the use of any suitable common standard measure of value, and in no other way whatever.

Stability of standard to be distinguished from stability of exchange.
It signifies nothing so far as stability of exchange alone is concerned, whether such common standard be gold, or silver, or a combination of the two metals, or any other possible substance or device whatever. In order, however, to ascertain the effect upon the infinitely more important *stability of standard*, of the adoption of one or other of the three possible standards, namely, gold, silver, or some combination of the two metals, it is necessary briefly to examine the causes which regulate the value of the precious metals.

30. In their nature, these causes do not differ from those which regulate the value of any other object. Value is essentially a relative and not an abstract conception; and the value of the precious metals, as of any other object, at any moment, and in any place, depends, immediately, upon the pressure of the present demand upon the present supply. Without diverging to follow any of the lines of thought suggested by this definition, it is only necessary, for the present purpose, to remark that the pressure of the demand upon the supply of objects such as gold and silver, which are, practically, imperishable, and the principal uses of which involve comparatively little wear and tear, is subject to influences which differ widely from those which regulate the pressure of the demand upon the supply of perishable objects, as, for example, a great catch of fish.

31. Gold and silver are used for three principal purposes, which may be named in their order of importance, as follows:—

- (1) hoarding, or storing value, whether in the form of money or in cruder forms;
- (2) current or active money;
- (3) the manufacture of works of art or ornaments, and various industrial uses.

The actual final consumption or waste of the precious metals in manufacture of works of art or ornaments, is, by comparison with the quantities produced, so insignificant that it may be ignored. Whether embodied in works of art, or in solid bars, these metals are so far indestructible, that the weight of metal used in the arts which constantly reverts to the crude form, probably suffices, without very large additions, to supply all demands for this object. The consumption of these metals for industrial purposes, though larger, is still, probably, unimportant in relation to their whole stock.

32. So, again, the recurring demand for crude gold and silver for the manufacture of coin for current use, in all probability, rather diminishes than increases. Paper money in its several forms of notes, cheques, bills of exchange, etc., and improved methods of the settlement of accounts, such as culminate in clearing-houses of various kinds,—all tend constantly to displace the gold and silver money in current or active use for the exchange of value. Such devices are, probably, not as yet exhausted, even among the most intelligent communities; while there is great scope for the economy of

Use of precious metals for active money

Waste in works of art insignificant.

Uses of gold and silver.

the precious metals employed as active money, by the introduction, among the less advanced countries, of methods which are already established in the more advanced countries. Even if such obvious opportunities for further economy be ignored, it is certain that the volume of the metallic currency, or, as it may be defined, the active metallic money of any country, fluctuates but little; and that when a country has an adequate outfit of active metallic money, its indents upon the general stores of the crude metal for the maintenance of its currency are almost imperceptible. The waste of the metal thus used, whether in wear and tear, loss or destruction, is ascertained to be so small that it may be neglected.

33. The fact is generally recognised that the volume of a properly constituted subsidiary money, whether superior, like bank or currency notes, or inferior, as debased silver or copper coins, is subject only to limited variations: the demand for such instruments remains comparatively uniform. Upon reflection, it will appear that the same principle applies to the rest of the active or current money of any country whose currency is in a sound condition. There is no reason whatever to suppose that the volume of the retail exchanges of any community which requires the intervention of active money is liable to any violent or frequent expansion or contraction, or that the volume of metallic money in active use varies more than that of the several forms of subsidiary or representative money, or, in fine, that any constant accretion to such money is required. Doubtless, there may be a spasmodic demand for a fresh stock of active money on special occasions, as there was for gold when recently Germany introduced its gold standard, or when America resumed specie payments; but such contingent and temporary demands produce little permanent effect upon the value of these metals.

34. It may be concluded, therefore, that, if gold and silver were needed only for the manufacture of works of art or ornaments, and of active money, the pressure of the permanent demand upon the permanent supply of these metals would be so weak, that their values would be unstable and low. The stability, at a high range, of the value of gold and silver really depends exclusively upon their use for hoarding or storing value.

If, indeed, language be used with severe exactitude, it may be difficult to draw a clear distinction between money hoarded or passive, and money current or active; and the most precise definition of the uses of the precious metals would, perhaps, be—

- (1) Storing value (hoarding);
- (2) The manufacture of works of art or ornaments, and various industrial uses;

the second of which uses, as has been shown, contributes little or nothing to the value of these metals, except, indeed, in so far as this use, sometimes, as, largely, in Asia, merges in, and is indistinguishable from their use for storing value.

35. According to this, which appears to be the true definition, the primary use, even of current or active money, is to store value not immediately wanted; its employment for the transport or exchange of value being, a secondary duty. It would be difficult, on any

True use of the precious metals always to store value.

other hypothesis, to distinguish between the attributes of money buried by misers or ignorant peasants, and, so, absolutely passive and useless for the transfer of value, and that which passes, perhaps several times in a day, from hand to hand. To regard money proper of all kinds, including the crude substance of money, as used, primarily, for storing value, furnishes us with a definition common to all such money; under which passive money differs from active only in that it is stored for a longer money period.

36. Certainly, it is impossible to draw any clear line between current money and hoarded money. Money current to-day may be hoarded to-morrow; money hoarded to-day may be current to-morrow; and it may be often difficult to say whether particular money is hoarded or not, as, for instance, the reserves in the vaults of the Currency Department of India or of a Bank. All that is clear is that of all the precious metals in existence, a certain volume, subject to little or no expansion or contraction, which has been, in this memorandum, defined as active money, is required for the constantly-recurring occasions when value must be transferred in retail from hand to hand, and the rest is, excepting the insignificant portion devoted to artistic and industrial uses, hoarded or stored. The importance of the distinction between active and passive money must, however, not be overlooked: it lies chiefly in this, that representative instruments and devices can and do perform all the duties of active money, often far more conveniently than the money proper which they represent. But, speaking generally, such expedients cannot efficiently disoblige the functions of passive money, because they are ineffectual for prolonged hoarding.

37. The laws which regulate the demand for gold and silver for storing value cannot be traced; its pressure is indefinite, and, perhaps, depends, ultimately, upon the volume of the products of the labours of man and the fruits of the earth not required for immediate consumption. This, and probably this only, is the demand which, by its pressure on their supply, ultimately confers upon the precious metals their permanent value.

38. The efficiency of the precious metals for storing value does not, happily, depend, like the efficiency of coal or wood for storing heat and force, exclusively upon intrinsic qualities of which mankind cannot deprive them, but to a large extent, upon the common consent, or, even, caprice of mankind; their intrinsic efficiency for storing value, and, therefore, their intrinsic value, consists only in their superior fitness for this particular duty as compared with all other substances: but they may, conceivably, be at any time dethroned from this position: their value rests, in short, upon human laws, and can, at any moment, be destroyed by human laws.

39. During the last thirty-five years, the value of each metal in turn has been seriously imperilled by threatened or actual legislation of this kind. After the discovery of gold in California and Australia, one of the most distinguished of French Economists (Chevalier), and a wellknown English Economist (Danson), oblivious, as it would seem, of the effect of their proposals upon the existing standards of value and thus upon contracts throughout the world, earnestly and persistently advocated the disuse of gold as money: if their advocacy had prevailed, the value of gold would have been destroyed. Now, again, within the last few years, silver has been actually demonetised in Europe

the stability of its value being thereby seriously impaired. Plainly, either metal might be, at any moment, demonetised, and its value indefinitely reduced, by human legislation. If the suggestion that the value of both metals might, by like means, be simultaneously dissipated, he made with much hesitation, it is only because, as already said, it is difficult to conceive that it would be possible to find any other standard measure of value which would be, or, at least, is likely to be, substituted for both gold and silver.

40. Upon so precarious a basis rests the whole fabric of that portion of Precariousness of their human wealth which is stored in the form of the value under present conditions. precious metals; the most permanent of all the forms of wealth, if human laws were unalterable; the most easily destructible by any change of such laws under the influence of panic, caprice, or misunderstanding of the abstruse principles which underlie the phenomena under investigation.

41. If the conclusion be accepted, and it appears undeniable that human Relative values of precious metals are under human control. legislation, by causing their disuse as money, and so incapacitating them for the duty of storing value, can deprive either, if not both, of the precious metals of the greater part of their value, it follows, conversely, that the value of either metal can, by the same instrumentality, be increased at the expense of the other, and, accordingly, that their relative value can, within wide limits, be fixed or defined; it was so defined, as has been shown, for three quarters of a century, in virtue of the law of a single country (France); and, provided that such a law is sufficiently general, and that its permanence is ensured, its effect must be universal and absolute.

42. In a second appendix to this memorandum will be found an estimate of Production and stock of the total production and present stock of the the precious metals. precious metals. According to that estimate, the weight of gold and silver in human possession is about 510 millions of pounds troy, of which 30 millions of pounds (one-seventeenth part) is gold, and 480 millions (sixteen-seventenths) is silver. The aggregate value of the whole was, till recently; about equally divided between the two metals. The value of the whole may be, at this moment, about £2,800,000,000. So vast is the property, the value of either half, if not of the whole, of which lies, as has been shown, almost absolutely at the mercy of human legislation. If, by human legislation or otherwise, one of these metals should be demonetised, its value would be practically destroyed and transferred to the other, the value of which would be doubled. The catastrophe which would follow upon such a revolution can hardly be imagined.

43. The immediate effect of the recent action of Germany may probably Effect of German demonetisation upon their relative values. have been the transfer to the owners of gold of one-sixth of the value of the stock of silver existing in 1873, and the enhancement, in the same proportion, of all debts then existing, defined in gold, and of all recurring payments fixed by contract or custom in gold. By a happy accident it seems probable that the claims of creditors by the silver standard have not yet been actually depreciated: at the same time, but for the action of Germany, such creditors would have been, to the foregoing extent, in a better position than they now are. Enormous injury has been caused to trade by the resulting oscillations in the value of both standards in search of a fresh equilibrium, and from apprehensions which still continue, lest other nations should follow Germany's example.

44. These serious consequences from the comparatively moderate disturbance of the general standard measures of value, due to the action of a single nation, furnish some indication of what would happen if other nations should hereafter take similar steps. It is not too much to say that, in such case, that stability without which a standard of value cannot discharge its main functions already gravely impaired, would be finally destroyed. This calamitous result can be certainly averted only by the concerted action of the principal nations, and no effort should be spared to obtain such concert.

45. If gold alone, or silver alone, was, by common consent, made the inferior stability of mono-universal standard measure of value, then, after an indefinite interval of incalculable disaster and ruin, a certain new stability of standard established upon the sole gold, or sole silver, basis might again be attained; but, even then, such stability, based upon one metal only, must inevitably be wholly inferior to that based upon the two metals in correlation, because the compensatory influences of the existing duplicate standards would be absent, and every passing fluctuation would operate upon a much smaller volume of material. To illustrate this, it may be asked what would have happened if the discoveries of gold in 1848 and 1851, which reduced the values of both metals by about one-fourth for twenty years, had operated upon gold alone? It seems probable that, but for the steadying influence of the French yoke between gold and silver, the value of gold would have fallen by at least one-half; in other words, gold prices would have doubled, and creditors by the gold standard would have lost half their property.

46. In order to the existence of a real bi-metallic standard measure of value, it is not absolutely necessary that the two metals should be actually interchangeable, anywhere, at a fixed ratio. Such a ratio would, in a great degree, establish and maintain itself without any such interchange, if only a permanent share of the common field of employment were absolutely secured to each metal. At present, speaking generally, it may be said that the field of Europe and America is supplied only by gold, and the field of Asia is, to a great extent, supplied by silver: though even in Asia, notwithstanding that gold is not used for money there, much value is stored in gold.

47. Thus under present circumstances, silver takes a very substantial share of the work of storing value, not much less, as is shown in Appendix II, than one-half. Under this division of duty between the two metals, the value of each is, even now, in correlation to the value of the other, so that a bi-metallic standard measure does already actually exist in a very important sense. If, indeed, permanency of the existing conditions could be ensured, the most elementary defect of the present state of affairs would be cured. But not only is there no security for such permanency, but it is scarcely to be expected that the nations will consent to guarantee the *status quo* against all changes. Such an arrangement would leave America and France, especially France, burdened with a vast mass of silver money representing value in excess of its own proper value; and, even if this obstacle were surmounted, it is hardly to be expected that other nations who have now a silver standard will, upon such conditions, bind themselves, for the common benefit, to forego for ever the use of gold money.

48. After all, too, even if a bi-metallic standard measure of value, based upon the permanency of the *status quo*, could be established, it would probably prove inefficient for one essential purpose. With a perfect system

Inefficiency of the existing correlation, even if it could be made permanent.

of standard measures of value, there ought to be no difficulty in the transportation of either metal from one country to another. For example, by reason chiefly of the rapid accumulation of the public debt incurred for the consolidation and material improvement of the empire, the settlement of the accounts of India, including inland Asia, with the rest of the world beyond sea, has hitherto required the constant inflow of gold and silver. But it may be hoped not only that the debt of India will, in due time, cease to grow, but, even, that India may be in a position to repay some of its foreign debt. Whenever this state of things occurs, India ought to be able to retransport silver as well as gold without serious loss. It will be a great disadvantage to India, if, eventually, it should find itself deprived of this manifestly equitable resource. It may, however, readily be conceived that, if silver is not used for money in Europe, its value there would, under such circumstances, be so greatly depressed that its re-transport might be impracticable.

49. For these several reasons, the expedient of an international agreement to maintain the standard measure of value of each nation, as it now is, may be set aside as practically unattainable, and comparatively ineffectual.

Guarantee of *status quo* rejected.

50. The simplest and most perfect theoretical form of a bi-metallic standard measure of value would be an electron or amalgam of silver and gold in fixed proportions. But, inasmuch as, if the metals were amalgamated in

the proportions which other considerations require, such an electron would not be distinguishable, otherwise than upon assay, from pure silver, this method also must be rejected as unattainable. Moreover, it would be too violently inconsistent with the actual facts of the world's money, which must practically predominate any settlement of the question.

51. Another method, also based upon the recognition of the bi-metallic standard measure of value, would be to endue the two metals with the *vis liberatrix* upon which, as has been shown, their value depends, only when associated in fixed proportions. Thus, for example, it might be determined that debts should be discharged by the delivery of 1 part of gold and 15½ parts of silver. But this method would be, manifestly, so cumbrous and difficult in operation, that it, too, may be rejected, without more particular investigation.

Also that of associating the two metals in fixed proportions.

52. Thus three conceivable methods of giving effect to a bi-metallic standard measure of value have been described, there may be other possible methods, namely,—

- (1) The surrender by each country, by international agreement, of the right to make any change whatever in its existing standard;
- (2) The general adoption, as a standard, of an electron or amalgam of gold and silver in fixed proportions;
- (3) The endowment of either metal with the *vis liberatrix* or *force liberatoire* only when accompanied by a fixed proportion of the other.

It is quite possible that these three methods do not exhaust all possible alternatives for the establishment of a bi-metallic standard measure of value.

53. Their recital, however, is useful, chiefly, to illustrate the principle of a bi-metallic standard, as well as to show how they serve to illustrate principle and show efficacy of human laws. the common prejudice that the two metals is not subject to the control of human laws. As already said, the experien-

the world under the dominion of the French Monetary Law of 1803 effectually disposes of that fallacy. That law, although confined to a single nation, sufficed, for seventy years, to yoke the two metals together within narrow limits, which even the revolutionary gold discoveries of 1848 and 1851 scarcely stretched. As has been shown in this memorandum, the value of each precious metal is immediately dependent upon human consent, that is to say, human laws, only. A grave disturbance of the relative values of the two has actually been caused by the legislation of a single nation (Germany); and it seems certain that, if the principles underlying the value of these metals were generally understood, the at one time generally received, but now nearly exploded, objection, that their relative value is independent of, and cannot be controlled by, human laws, would never again be heard.

54. The three alternative methods aforesaid have been described only to be rejected, as being, for sundry reasons, impracticable. The French method. The only method left is that first introduced, instinctively, if not, indeed, accidentally, by the French Monetary Law of 1803, and now, in practice, monopolising the title of THE BI-METALLIC STANDARD. By this method the coinage of silver and gold is unrestricted, and both metals are endowed with the *vis liberatrix* at a fixed ratio. For example, by the French Law, a debt of 100 francs may be discharged by the delivery of coins containing either 450 grammes of pure silver or 29.0323 grammes of pure gold, being in the proportion of 1 : 15½.

55. If a standard of this kind were adopted by all, or by a sufficient number of, the nations, and if the ratio were fixed within certain limits, there can be no question of the standard measure of value. that but that the equilibrium, and, to the utmost possible extent the stability, of the values of the two metals would be completely and permanently secured. The general adoption of such a standard would produce the same effect as the actual replacement of the two metals, gold and silver, by a single electron or amalgam of the two metals in the proportion adopted. To whatever extent, in the proportion used, the facts should be so disregarded as that, after an imaginary amalgamation of the whole stock of the two metals in that proportion, there would remain a considerable surplus of either metal, the common standard would be, to that extent, subject to disturbance; but, as such disturbance would not be confined to one country, but would extend over the whole world, it would be imperceptible, unless the error in the proportion used were very great. In no case would it affect the international exchanges, which by the adoption of a common measure of value, would be proof against all fluctuations beyond narrow limits.

56. There seems no room for doubt that a standard measure of value resting upon this broad basis must, of necessity, be indefinitely more stable than such a standard resting upon the basis of one metal only, and that its adoption, under sufficient sanctions, would certainly deliver, not India only, but the whole world, from all the evils to which, in the absence of any international agreement, it is now exposed; and this without serious injustice to any existing interests. No doubt, creditors by the present gold standard would lose some of their actual advantage; but for the most part this advantage has been acquired recently, and being wholly unearned, is held upon no fundamentally equitable title. Moreover, the sacrifice entailed upon such creditors for the

common good, would probably, in almost all cases, be largely compensated, even to them, by the substantial improvement of their security, and the general increase of prosperity which must ensue from the establishment of the standards of value of the world upon a permanently stable basis.

57. The question what particular ratio between silver and gold should be adopted in a bi-metallic standard of this kind, though important, is, still, only a subordinate question. Theory, as already indicated, requires that this ratio should be, as nearly as possible, the proportion which the whole stock of gold in the world bears to the whole stock of silver. But neither is it possible to ascertain this proportion with any precision, nor, whatever it may be, will it be permanently maintained. According to the statistics in Appendix II, this ratio, at the end of 1878, was about 1 : 16. The ratio by the Law of the United States of America, now practically suspended, is 1 : 16. The ratio under the French Monetary Law was 1 : 15½. Although the American ratio, probably, approaches the more nearly to present theoretical precision, yet the proportion of silver to gold in the common stock is now constantly diminishing, and much wider practical effect having been given to the French ratio, it would, probably, be preferable to adopt it. There is no doubt that the French ratio would, in effect, secure as complete a stability of value in the standard as is attainable.

58. Reference has been made, in this memorandum, more than once, to the consent of a sufficient number of nations as essential to the establishment of a common standard measure of value. The greater the number of nations associated for such a purpose, the more thorough would be the result. At the same time, it has been shown how effectual has been the action of a single nation (France); and it is believed that, if America, France, Germany, and India were to unite with this object, the desired reform would be effectually and permanently accomplished, and that it might be even possible to dispense with the co-operation of Germany. The Government of British India need not hesitate to become a party to such a union, to which it might be expected that other nations would quickly adhere. The Government of India should not join any convention to which France is not a party. Present circumstances imperatively demand a concerted action between France and India.

59. The conclusions suggested in this memorandum may be thus recapitulated. It is considered—

- (1) that value should be measured throughout the world by a common standard;
- (2) that this standard should, by the most effectual possible international sanctions, be secured against disturbance by any single nation;
- (3) that, practically, however, the desired object would be attained by the union of America, France, Germany, and India, or of America, France, and India;
- (4) that the best, because the most stable, standard would be the recognised BI-METALLIC STANDARD, that is to say, the optional payment of debts in gold or silver at a fixed ratio; and
- (5) that this ratio should be that prescribed by the French Monetary Law of 1803, namely, 1 : 15½

60. To complete the reform advocated, the mints of all nations should be organised, and the levy of seigniorage regulated, under international laws. It would, indeed, be better still if, in recognition of the fact that value, of which money is, after all, only the instrument, is cosmopolitan, the mints of the world could be managed as neutral or international institutions, belonging not to individual nations, but to mankind as a whole. This is, perhaps, an ideal, the realisation of which is distant; but it may be hoped that sufficient effect may be given to the general principle advocated, to deliver the world, almost wholly, from the inconvenience and loss occasioned by fluctuations of the international exchanges, and greatly to alleviate the infinitely more injurious, albeit less patent, fluctuations to which the standard measures of value are now subject.

61. The adoption of these principles would still leave many minor improvements in the currency or exchange-machinery of the world to be desired; but none of them are important in comparison with the settlement of a common standard measure of value upon a secure and appropriate basis. The following may, however, be mentioned:—

- (1) The universal establishment of proper principles as to the issue of subsidiary money of all sorts, whether in paper or in any kind of metal. No such subsidiary money rests upon a sound basis which is not convertible, on demand, into standard money.
- (2) The assimilation of the moneys of different nations. It would be convenient if there were not only one standard measure of value, but a common unit of such standard; that is to say, if the several coins of each country contained the same weight of fine metal, or, at least, multiples of the same weight.
- (3) The general introduction of the decimal sub-division of money.

62. It is not necessary to speculate on the effect which the introduction of the bi-metallic standard would produce upon the current or active money of the world. On the one hand, it is not to be expected that such a measure would, for a long time, if ever, modify that universal preference of gold to silver, which is doubtless founded upon its *primâ facie* inherent or intrinsic superior qualifications for storing value. The Gresham Law might, therefore, perhaps, operate to cause the recession of gold into the stores of passive money, where it would, none the less, effectually discharge its share of the common function of the two metals, although it might only appear at intervals in the rôle of active money. On the other hand, the greater efficacy and cheapness of the more valuable metal, for the transport of value in large amounts and over long distances, might possibly lead to its preferential use for the wholesale and international settlement of accounts.

63. Doubtless, the substitution of silver for gold as the active or current money of the countries which now use gold—if, perchance, this should be the result of the introduction of the bi-metallic standard—would be distasteful to those who are accustomed to the more portable and convenient instrument. But, while sympathy might be felt with their preference for gold, objections of this nature need not be ranked highly in comparison with

the world-wide and substantial benefits to be expected from the reform which

But too much weight must not be allowed to this disadvantage.

might, possibly, involve them; and, when it is remembered that but a small fraction of the world even now uses gold for its current money; that little practical inconvenience is found to result from its absence in such different countries as India and Scotland; and that, by a suitable development of paper currency, the disadvantage of the greater weight of the less valuable metal can be so mitigated as to be almost neutralised, the conclusion need not be evaded that there is little real substance in such prejudices. The sentimental arguments which are connected with the supposed superior beauty, and the certainly superior value, of the royal metal, do not seem to deserve even a passing thought.

64. Lastly, one remarkable phenomenon, cognate to the subject of this

The additions to the stock of the precious metals since 1851, paper, may be noticed. During the thirty years ending with 1876, the stock of gold in the world was nearly doubled, and one-fourth was added to the stock of silver. This rate of increase to the stock of the two metals was unexampled. Some temporary inconvenience was caused by the consequent fall in the value of these metals,—or, in other words, the general rise in prices; but, although, as yet, the production of the precious metals is but slightly abating, there has, of late years, been a marked reaction in prices, which have receded very nearly to the level at which they stood in 1850, that is to say, notwithstanding the unprecedentedly vast additions to the stock of the

have caused no lasting loss of their value. two metals and their continued great, although now diminishing, production, they have, already, nearly regained their former value.

65. This paper must not be prolonged by an attempt to analyse the causes

Concomitant increase of human wealth. of this unexpected, not to say extraordinary, result. But it deserves remark that the period during which these unparalleled additions have been made to the general stores of the precious metals,—not at all, as is believed, to the active metallic money of the world—has been also a period of unparalleled development of the general resources of the human race and unprecedented material improvements. If it be true that the fundamental and principal use of the precious metals is to store the surplus produce of the soil and of human labours, then it seems to follow that the growth of this surplus has, ultimately, kept pace with the supplies of the precious metals, greatly as these supplies have been for the time, accelerated.

66. Thus it becomes a not violently improbable assumption that there is

Probable connection between these phenomena. no remote connection between the supplies of the precious metals and the progress of material improvements in the world. Indeed, it would not, probably, be difficult to trace, in the recent history of British India, a direct relation between the contemporary discoveries of the precious metals and the activity of labour which would otherwise have remained dormant: the cultivation of land which would otherwise have continued unproductive; and even the preservation of human lives which would otherwise have perished.

67. According to all available information, we have now to contemplate

Threatened contraction of supply of the precious metals. the probability of a progressive contraction of the supply of these metals. If so, it is peculiarly important, just now, to prevent the further disuse

of the less valuable metal, and it would be just now especially disastrous if mankind should finally resolve to use gold alone for the storage of value, and decree the destruction of the value of silver.

68. Many of the arguments used in this paper have travelled beyond the scope of the British Indian interests, and averted the question. Cosmopolitan character of the question. to cosmopolitan considerations which may, at first sight, seem to be outside the duties of an Indian official; but for this no apology is necessary. The truth is, that, in this matter, at least, the interest of each country is identical with the interests of the whole world. Therefore, in the advocacy of the great reform which is the object of this memorandum, on behalf of India, it has been necessary to plead on behalf of all other nations.

69. At the same time, this paper has not been prompted by a quixotic desire to promote a reform with which India is not concerned, but solely by the conviction that the interests of this great empire imperatively demand its adoption. The yearly loss to India from that recent monetary disturbance which was possible only by reason of the absence of international engagements for the equitable protection of the monetary interests of all nations has been estimated at about 2½ crores of rupees. Large as is that sum, it represents, it is believed, feebly and inadequately, the injury inflicted upon British India by the loss of general confidence in the stability of its standard measure of value. Moreover, India is left, meanwhile, constantly exposed to the consequences of the actions of other nations over which the Government of India have no control.

70. The restoration of public confidence in the standard measure of value of British India by its re-establishment upon a stable and secure basis, and the deliverance of the Government of India from risks and apprehensions, which, as has been said, make any settled financial policy well-nigh impossible, seem to be objects worthy of vigorous and sustained efforts, and of the application of all the resources at the command of the highest statesmanship.

TABLE I.

Prices and Values of Typical Commodities in Gold and Silver in London and Calcutta (Prices and Values of March 1873=100).

IN LONDON.	ACTUAL PRICES.		PRICES IN GOLD.				VALUES IN SILVER.			
			Compared with March 1873.		Percentage of change since 1876.		Compared with March 1873.		Percentage of change since 1876.	
	April 1876.	December 1879.	April 1876.	December 1879.	Rise.	Fall.	April 1876.	December 1879.	Rise.	Fall.
Gold	...	...	...	...	...	...	111.73	113.94	1.99	...
Silver	83.6d.	52.4d.	89.54	87.78	...	1.98	...	...	...	...
Scotch, Pig Iron	88s. 3d.	65s. 6d.	49	55	12.2	20.6	65	63	14.5	...
Coal, Hetton, Wallsend	21s. 3d.	16s. 9d.	63	60	...	...	71	67	...	19.7
Copper, Chill Bars	79l.	66l. 10s.	88	74	...	15.9	99	86	...	14.1
Straita Tin	71l. 10s.	90l. 10s.	49	62	26.5	...	65	71	29.1	...
Wheat	45s. 3d.	47s. 1d.	82	88	3.6	...	91	97	6.6	...
Flour, Town-made	40s. 6d.	40s. 6d.	86	86	...	...	96	98	2.1	...
Beef, Inferior	3s. 8d.	2s. 10d.	110	85	...	22.7	123	97	...	21.9
Prime, small	5s. 6d.	5s. 1d.	108	96	...	8.6	117	110	...	6.
m, Middling	6d.	7d.	69	76	10.1	...	77	86	11.7	...
10 Mule Two	11d.	10d.	80	77	...	3.7	90	87	...	3.3
Wool, S. D. Hogs	16l. 10s.	14l. 10d.	60	71	...	11.3	90	80	...	11.1
Sugar, Manila	14s.	18s. 6d.	73	96	31.9	...	90	108	35.6	...
Coffee	82s. 6d.	71s. 6d.	96	83	...	12.6	107	94	...	12.1
Saltetre	22s. 3d.	26s. 6d.	80	90	20.0	...	90	110	22.2	...

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TABLE I—contd.

Prices and Values of Typical Commodities in Gold and Silver in London and Calcutta (Prices and Values of March 1873=100)—contd.

IN CALCUTTA.			VALUES IN GOLD.				PRICES IN SILVER.					
	₹	a.	₹	o.								
Grey Shirtings (8 lbs. 2'4 oz.)	5	0	4	11	75	69	...	8	84	79	...	59
Mule Twist, White Good, No. 40	0	5½	0	5½	77	70	...	9'1	88	80	...	69
Turkey Red, No. 40 12 lbs.	1	8	1	3½	82	66	...	19'6	92	75	...	18'5
Orange Nos. 40-80	0	13½	0	12½	79	74	...	6'3	88	85	...	3'4
Copper, Sheathing	39	4	32	12	69	72	...	19'1	99	82	...	17'1
Iron, Flat, Bolt, Bar and Square	3	11	3	1	73	60	...	17'8	82	68	...	17'
Spelter, Hard	10	13	8	0	136	98	...	27'9	152	112	...	26'2
Hides, Buffalo, Patna	72	0	125	0	54	91	68'5	...	60	104	73'3	...
Jute, Picked	24	0	31	0	117	148	26'5	...	131	169	29'0	...
Linseed, Fine Bold	3	12½	5	1	76	99	30'2	...	85	113	32'9	...
Rice, Ballam	2	7	3	2	103	129	25'2	...	115	147	27'8	...
Saltpetre	5	5	6	11	62	75	20'9	...	69	85	25'2	...
Sugar, Gurratta	6	10	8	8	61	76	24'6	...	68	87	27'9	...
Tea, Good Souchong	0	12	0	8	97	64	...	34'0	109	73	...	33'9
Wheat, Doodiah	2	8	3	10	68	95	43'9	...	74	107	44	...

TABLE II.

Estimates of the production of the Precious Metals since the discovery of America, and of the Stock in existence before that event (compiled from various sources).

	GOLD.		SILVER.		
	Kilo-grams.	Lbs. troy.	Kilo-grams.	Lbs. troy.	
In existence in 1492*	87,970	235,490	5,222,305	8,633,333	
Produced elsewhere than in Extra-Russian Asia, 1493-1848*	4,415,496	11,629,856	134,650,078	360,780,000	
Produced in Extra-Russian Asia, 1493-1847*	1,298,768	3,453,827	3,107,309	8,326,000	
1849-1850	102,515	274,656	2,071,539	5,550,030	Values in sterling money in 1878—
TOTAL 1493-1850	6,806,781	18,557,329	139,628,926	374,625,000	Gold £ 1,519,422,000
1851-1875†	4,521,775	12,916,339	31,003,235	83,064,414	Silver @ 50s. 1,308,655,000
1876-1878‡	410,023	1,098,628	5,263,934	14,183,333	Silver @ 60s. 1,558,398,000
GRAND TOTAL	11,138,498	30,569,724	179,349,096	469,808,060	

* Tooke and Newmarch, Vol. VI, pp. 141, 142, 150, 231.

† Sotherr, *Production of the Precious Metals* (1879).

‡ Sir Hector Hay, *Statistical Society's Journal*, 1879, p. 436.

NOTE.—All the authorities who have shared in the compilation of these statistics concur in the warning that the figures, especially before 1848, must be taken with reserve. They are, in fact, at the best only guesses carefully made by competent observers, after examining all kinds of data.

Even as such they are open to the following criticisms and remarks:—

- I.—The estimate of the metal already in existence in 1492 only includes the stock in Europe, Asia, and Mediterranean Africa, and does not include the stores already won from the mines in America, Asia, and the rest of the world. The European stock seems, probably, to have been over-estimated; and it is likely that the Asian store was already large.
- II.—The estimate of the produce of Extra-Russian Asia between 1493 and 1847 is by a Russian authority, M. Otrschkoff. It does not, apparently, include India or Japan; yet there is no doubt that the production of gold in India may, in the past, have been considerable.
- III.—The statistics, since 1847, apparently include little or nothing for Extra-Russian Asia, the greater part of Africa is throughout excluded. But Jacob speaks of considerable quantities of gold and silver produced in Asia, and values the produce of Asia in gold at £1,235,000 a year, and in silver at £1,000,000 a year, and of Sumatra, Java, Borneo and the Archipelago at £200,000 a year, and of the silver production of China at £180,000 a year (*Tooke and Newmarch, Vol. VI*). Otrschkoff estimated the silver production of China at £180,000 a year (*Tooke and Newmarch, Vol. VI*). He also estimated the yearly produce, before 1865, of Extra-Russian Asia and the African continent, including Madagascar and Africa at no less than 80,000 kilos of gold (nearly £11,000,000) and 500,000 lbs. of silver (about £4,300,000, (*Mosny*, Edition 1898, p. 557).
- IV.—On the other hand, the figures in this table since 1492 allow for no waste and no losses, as for example, by shipwreck, fires, forgotten hoards, and the like.

Perhaps, these several omissions may be set against each other; and the weight of gold now in existence estimated as follows:—

	Kilograms.	Lbs. troy.
Gold	11,300,000	24,000,000
Silver	179,300,000	469,000,000

But these estimates probably err in the direction of being too low.

XXXV.

NOTE BY MR. T. C. HOPE, DATED THE 9TH APRIL 1881.

1. In a despatch, No. 79 of 24th February 1881, the Secretary of State has forwarded to us a letter addressed by Lord Lyons to Lord Granville reporting an "unofficial and private" conversation he had had with M. Léon Say on the subject of the proposed Bimetallic Conference to be held at Paris. In forwarding this letter, Lord Hartington makes the following remarks:—

"In the absence of any expression of the views of Her Majesty's Government as to this proposal, I have not thought it right, at present, to make any communication to the Foreign Office in reply to their letter. But as the subject is one of much interest for India, it would appear to me to be unwise, in the event of the proposed Conference of the Powers being held, that the Indian Government should not be represented; and I shall be glad to learn as soon as possible what are the views of Your Excellency in the event of its being proposed that India should become a member of a Union, based on principles of bimetallicism for a limited term of years."

2. In a subsequent despatch (No. 94 of 10th March 1881) the Secretary of State has forwarded to us a note, which has been communicated to Her Majesty's Government by the Representatives of France and the United States, in which a formal invitation is conveyed to take part in the Conference. The terms of this note are as follows:—

"Le Gouvernement de la République Française et le Gouvernement des États-Unis, ayant échangé leurs vues au sujet d'une Conférence entre les Puissances principalement intéressées dans la question d'établir l'usage de l'or et de l'argent comme monnaie internationale bimétallique, et d'assurer la fixité de la valeur relative entre ces métaux, se trouvant d'accord sur l'utilité et l'importance dans une telle Conférence, ainsi que sur la date et le lieu où elle serait tenue, ont l'honneur d'inviter le Gouvernement de Sa Majesté Britannique à prendre part à une Conférence composée des délégués que chaque Gouvernement voudra bien désigner.

"La Conférence se réunirait à Paris le Mardi, 19 Avril prochain, pour examiner et adopter, dans le but de soumettre à l'acceptation des Gouvernements représentés à cette Conférence, un plan et un système pour l'établissement, au moyen d'une Convention Internationale, de l'usage de l'or et de l'argent comme monnaie bimétallique, suivant une valeur relative déterminée entre ces deux métaux."

3. On the receipt of this invitation the Secretary of State caused the following communication to be addressed to Lord Granville on 8th March 1881:—

"Without knowing the system which the Foreign Governments may think of adopting, and without ample time for obtaining the opinion of the Governor General of India in Council on so important a question, the Marquis of Hartington is unable to assent to that Government being pledged to adopt the principle of bimetallicism.

"It does not appear to Lord Hartington that, for the object proposed, there is any necessity that a Government which is now using a silver standard only should adopt a bimetallic standard.

"Lord Hartington deems it, however, of great importance that the interests of India should be represented in a Conference having for its object the means of restoring silver, in some degree at any rate, to its former value; and he desires me to suggest, for the consideration of Earl Granville, whether it might not be possible to obtain from the Governments convening the Conference a modified invitation to Her Majesty's Government to send delegates instructed to report on the extent to which it may appear possible that the measures which the Conference may decide to recommend would be forwarded by any action on the part of the Government of India, and, if the Lords Commissioners of Her Majesty's Treasury would consent, on the part of the British Government also."

4. Officially, the matter stands thus. Unofficially a Reuter's telegram, dated yesterday, reports as follows:—

"Sir Charles Dilke, replying to a question in the Commons, said that the Indian Government was willing to send a delegate to the Metallic Conference, but that he would not be authorised to vote on any question to adopt the bimetallic standard."

It may very probably be correct, but we cannot rely on its correctness. I do not take it to mean more than that England will not submit to the decision of a mere majority of delegates the question whether she shall modify either the English or the Indian standard. Another telegram of the same date, but received to-day, runs thus :—

“*Paris, 8th April 1881.*—In the Senate the Minister of Finance said that he still hoped England would participate in the Metallic Conference. France, he said, will support a bimetallic standard.”

Obviously England's course of action is not yet definitively settled.

5. Of the nature of the arrangement contemplated by the conveners of the Conference, some idea may perhaps be gathered from the following cutting out of *The Times* received by yesterday's mail :—

“*Berlin 14th March.*—A morning journal here professes to have received from London the proposals made by the French Government to those Powers who have been invited to attend the forthcoming Monetary Conference in Paris, and, while remarking that the Legation of the United States here knows nothing as yet of the document referred to, I summarise it briefly thus. After a long preamble, setting forth the reasons and motives for the contemplated change, the paper takes the form of a draft convention of 11 articles, which the Conference delegates are supposed to adopt as the basis of their decision, just as the Treaty of San Stefano formed the basis of negotiation at the Congress. According to this, the United States of America, would constitute themselves a Bimetallic Union, the several members of which should be the unlimited coinage of gold and silver in the value proportion of 1 to 15½, it being optional for the various contracting countries, under this condition, to alter or retain their coinage of dollars, francs, pounds sterling, or marks. Every person would have the right to have any amount of gold and silver, in money or otherwise, to the mint of any of the contracting countries to have it gratuitously coined into the legal tender of the said country, and could be had immediately by a deposit of the same amount in the form of gold or silver coins to be legal tender in the said State which takes the same. It is left to each State to continue to issue its various coins to settle its debts, and to determine the amount by which no private person would be obliged to receive in payment. The fact of a State issuing paper money or letting it be issued, whether legal or not, is not to free that State from the stipulated obligation of always having its mints for the free coinage of both the metals aforesaid in the proportion of gold and silver, whether in bars or cash, are not to be taxed on their issue. The acceptance of silver to begin the same day in all States, of the British Empire, and the convention to remain in force till the 1st of January 1900, and, in the event of its not being denounced a year before this date, further by tacit renewal till 1875, and so on for periods of ten years.”

There can be little doubt that America and the Latin Union (France, Switzerland, Italy, Belgium and Greece) will enter into a new Bimetallic Union not differing very essentially from this sketch. Germany is believed to have been, unofficially, a prime mover in the matter, and to be prepared to enter the Union, subject to certain reservations, probably relating to her stock of silver. Austria is understood to be strongly in favour of the Union. Spain is practically bimetallic. Russia and Turkey, owing to their forced circulation and financial difficulties, are not of much account.

6. As the Conference is to meet at Paris on the 19th instant, and no intimation of the views of the Government of India, even as to sending an Indian delegate, has yet been given, an answer to the Secretary of State might be given as soon as possible. Possibly the uncertainty indicated by the telegram may be partly owing to its non-arrival.

7. The intention of the Indian Government, in the event of its not attending the conference, to be decided. It seems probable that the Government will be subjected by a depreciated, varying and falling rupee, to the same evils to which India is now subjected by a depreciated, varying and falling rupee.

First, we have the Government of India, which is now subjected by a depreciated, varying and falling rupee, to the same evils to which India is now subjected by a depreciated, varying and falling rupee.

the current year at £3,063,000, and amounts, even at the *ratio* of 15½ to 1, to no less than £2,053,600.

Secondly, there is uncertainty in commerce. The merchant has to contend with and allow for not only the fluctuations in price of the article in which he deals, but also those occurring between the metals used as standards in the countries between which his business lies.

Thirdly, come the loss to fixed incomes, the depreciation of State fixed resources, and the modification, in favour of the debtor, of all existing contracts.

Fourthly, the extinction of a proportion, corresponding to the depreciation, of such part of the circulating capital of the country as consists of money. If a mercantile firm possesses a capital of R1,00,000 for carrying on its business, or a native possesses R100 hoarded in a chatty-pot, the effect of a depreciation in silver of 25 per cent. will be to reduce the means and purchasing power of each by one-fourth just as effectually as if that portion of the cash had been thrown into the sea. Supposing the currency of India to be 200 millions a depreciation of 18 per cent. will have the same result as if a fine of 36 millions in cash had been levied, and carried off by an invading power. This effect is not, of course, experienced by fixed capital, or by circulating capital consisting of produce, etc.

8. From this it will appear that it is of the first importance to India to have a rupee (1) appreciated, or raised again, as nearly as may be, to the old level on which the bulk of expectations and State contracts have been based; and (2) steady, or, in other words, furnishing a standard of value varying as little as possible.

9. I do not propose to examine the whole question of bimetallism. To do so seems unnecessary, and would not be satisfactorily practicable within the ordinary limits of an office note. But I may remark that the aspect of the question, and of the controversy over it, has materially altered during the last three or four years. Experience of the practical effects of the discoveries, first of gold and then of silver, has shown them to be by no means so important or revolutionary as was anticipated, and has thus considerably weakened the force of discussions and conclusions based on such anticipations as were those which occurred in India some years ago. The bimetallists have been brought, by the fire of criticism to which they have so long been subjected, to divest their case of various fallacies and broad statements which at first attached to it, and to put their arguments with greater moderation and precision. On the other hand, the writings of some distinguished monometallists, such as Messrs. Bagehot and Giffen, deal with only portions of those arguments, and that, sometimes, on premises themselves open to question. Consequently, no books can be named which deal completely with the case, either on one side or the other. Nearly all the most recent are on the bimetallic side, and the best of these are "on the Depreciation of Silver" by Edward Gazelet, "What is Money?" by Robert Gladstone, "the Decline of Prosperity" by Ernest Seyd, and "Gold and Silver" by Mr. Hucks Gibbs, who was one of the British delegates at the Paris Monetary Conference of 1878. Mr. R. B. Chapman's "Memorandum on an International Bimetallic Standard Measure of Value," which was forwarded to the Secretary of State with the Government of India's Despatch No. 185 of June 8th, is also a very important contribution to the discussion.

10. But whatever may be the abstract merits of the two rival theories, we shall probably be pretty safe in assuming (1) that England herself will,

under no circumstances, be induced to abandon monometallism; (2) that most, if not all, of the financially important continental nations will establish a new Bimetallic Union without her; and (3) that the value of silver will be considerably raised in consequence.

11. Under these circumstances, it may be asked whether our chestnuts will not be pulled out of the fire for us by others, and whether we need do more than sit still and reap the benefit. I submit that more is incumbent on us. We in India are the largest holders of silver, believed to possess two-fifths of the stock in the world, and all the action or inaction of ours is of primary importance. If we were to demonetise silver, the new Union itself could hardly bear the strain; as long as we do not declare our intentions in this respect, uncertainty and fear (the chief workers of the present mischief) must affect the metal and our own interests in it. If, again, we have in our power to facilitate metallic remittances from one country to another, to reduce their cost, and to increase the consumption of silver, we should on no account neglect to do so. "The true remedy," says Mr. Bagehot, "for an enfeebled market is an access of demand."

12. As to demonetisation, we know perfectly well that it is impossible to us, because we never could obtain the means of acquiring the necessary gold. We should also hardly be so rash as to attempt the operation, in view of the recent failure of Germany on a smaller scale. Consequently, there can be no harm, and there will be the good indicated above, in declaring, or even engaging, to this effect.

13. Beyond this merely negative measure, however, we might take certain definite steps, involving no risk whatever, but likely to have a very powerful effect in our favour. I will first state these concisely, and then explain their scope. In India itself the steps required would be—

"1st.—The Indian mints to coin for the public a new silver piece, or dollar, worth intrinsically one-fifth of an English sovereign in the *ratio* of 15½ to 1, and therefore containing 350·306 grains troy of pure silver.* Its full weight would be 389·228 grains, supposing it to be made '900 fine,' as the similar coins of the Latin Union are.

"2nd.—This piece to be made legal tender at the rate of 34 annas, which is its intrinsic relation to the rupee, in the *ratio* of 15½ to 1.

"3rd.—The English sovereign to be made legal tender in India at the rate of $34 \times 5 =$ ten rupees ten annas.

"4th.—Sovereigns of similar weight and fineness to be coined for the public, on demand at the Indian mints, at rates for seignorage, etc., proportionate to those charged for rupee coinage."

N.B.—The question of coining half-dollars, either to run alongside the rupee or to supersede it, and of the subsidiary coinage, should stand over for future consideration, after the effects of the main measure have been observed. They have no present urgency, as the dollar and sovereign will not clash with any part of our existing Indian coinage.

14. In order to give full effect to the above four steps, it is further desirable, with *sole* reference to our Indian needs, to obtain assistance from England to the following limited extent:—

"5th.—The Indian dollar to be coined also at the Indian mints on

* The proposal to coin such pieces originated with Mr. F. B. M. in his work on "P. cont. cal question which need not be noted at present.

behalf of Government, and issued, under suitable precautions, to the public for shipment to the East.

"6th.—The English Bank Act, clause 3, to be altered so as to allow of the Bank's holding silver *coin and bullion*, instead of silver bullion only, up to the value of one-fourth of its stock of gold.

"7th.—Private arrangement to be made with the Bank of England permanently to hold accordingly about five millions of its metallic stock in silver coin and bullion, and to include in this a supply of dollars sufficient to meet ordinary requirements of shippers to the East.

"8th.—The dollars* to be also issued in England as a part of the *subsidiary coinage (gold remaining the standard)*, that is, to be limited legal tender up to £5 only, and the issue to be regulated by Government in the same way as that of the silver and copper token coinage now is. The Bank of England to give these pieces to the public, in exchange for gold or notes, as far as possible consistently with the above provisions."

N.B.—If the limit of £5 be strongly objected to, 40 shillings, which is the legal tender limit of the present English *tokens* coinage, would be better than nothing, though £5 would be very preferable, and could do no harm whatever.

15. The first object of these measures, which all work into each other and should be considered as a whole, is to establish a fixed natural par of exchange between India and England. Mr. Bagehot thus explains† a natural par :—

"As is well known, between two countries which use the same metal for money, there is a natural and fixed par of exchange. A certain weight of that metal of a certain fineness, in the currency of one of these countries, will always exchange for an equal weight of like quality in the currency of the other. But between two countries, one of which employs gold and the other silver, there is no such natural par. The relation between the two currencies depends on the amount of the one metal which will exchange for a given amount of the other."

Where two countries have the same standard, the exchange can only vary (according to demand for and supply of it) within the narrow limit of the cost of transmitting specie from one to the other and converting it into coin. Where two countries have a currency identical, or partly so, as England and Australia have, the bond is closer still, for the actual coin can be transmitted, the delay and cost of assay and recoinage being saved. It has hitherto been the misfortune and loss of both India and England that, though politically one, they monetarily speak different languages, and cannot communicate except through an interpreter. A London merchant who has to remit to India must buy bar silver or Mexican dollars, or sweep the continent for five-franc pieces, as he cheapest can, and have rupees coined in India. An Indian merchant remitting to England must either purchase gold, or send off rupees and silver bars to be exchanged in Europe for gold, before he can command sovereigns in London. The same applies, *mutatis mutandis*, to our now increasing trade with Australia. It is unnecessary for me to enlarge on the risks and losses which this process entails. Under the measures proposed, the merchant in either India or England will be free to remit at once sovereigns either way, and dollars to India, without limit (and even dollars to England to a moderate extent), as he may find most convenient.

* If there be any objection to the currency of an Indian piece in England, all the pieces coined there might be styled four-shilling pieces, and bear the ordinary English superscription. These pieces could then be placed on the same legal footing in India as the dollars coined there. This point, however, is of minor importance.

† "On Silver," page 72.

16. The necessity of adding gold to our Indian legal tender currency is two-fold. First, the option of selecting sovereigns for remittance will greatly relieve the exchange and promote its fixity—merchants will be free to take for remittance whatever is first to hand. Secondly, the full monetisation of gold will greatly benefit India, by affording a ready outlet for part of the vast hoards of the metal now lying unprofitably in bars or ornaments, and so increasing the active capital of the country, with the well known results of “cheaper money” and greater industrial and commercial activity. It may be added that if our gold-diggings should chance to afford a large outturn, it will be a great gain and convenience to be able to convert the metal into local money. Upon this point, as on others my limits preclude my writing at length; but I may refer to the ample evidence in favour of causing a legal tender of gold to be a part of our currency arrangements which is contained in the volume of discussions on the gold question, 1859-74, and specially to the opinion of the Currency Commission of 1866 (paragraphs 24-25, pp. 341-342), and to the following extract (paragraph 5, page 296) from Sir Charles Wood’s despatch No. 224, dated the 26th September 1864:—

“5. It is obvious, from the information collected by Sir Charles Trevelyan, that there is a very general desire for the introduction of gold coins in India; that the people, even in the upper and remote part of India, are well acquainted with the sovereign; and that there is a very general impression that the introduction of the sovereign would be well received.

Nor can there be any doubt of the advantage to India, England, and Australia if the gold sovereign could be made the basis of their common currency.”

17. The fixing a ratio between gold and silver is an indispensable concomitant of the new position proposed for the former. I select the ratio of $15\frac{1}{2}$ to 1, not because there is any magical virtue in it, but because, on the one hand, our Indian experience has amply proved that both the ratio of 15 to 1 established by Act XVII of 1835, and the more recent attempt to get English sovereigns into circulation voluntarily on $\text{R}10$, were too high to be workable; while on the other hand, $15\frac{1}{2}$ to 1 is the ratio corresponding most nearly to the bulk of transactions and contracts prior to the late disturbance, and certain to be adopted at the coming Conference. Regarding the general suitability of this ratio, I may refer to M. Cernuschi’s pamphlet, “Bimetallism at $15\frac{1}{2}$,” published in January last.

18. The second object of the measures detailed in paragraphs 13 and 14 is to strengthen the demand for silver. In India, the dollar would probably not add much to the silver circulation, but chiefly take the place of rupees. For trade remittances from both India and England to China and the East generally, however, they would be largely used, owing to their economy and convenience. The dollar—American, Mexican, Spanish, and miscellaneous—has always been a favourite coin in the East,—in fact, the supply is believed to fall short of the demand,—and a new dollar of British Indian origin would be sure to make its way rapidly. In England, the five millions to be kept in the Bank of England would be a permanent accession to the demand, as would also such quantity of four-shilling coins as could be added to the subsidiary coinage under clause 8 of the Bill above. According to the best information procurable, five millions of such coins would supply a recognised want, and be a great convenience to the public. Their issue, small as well as large, is of a certain use and value.

19. It may be asked wherein the scheme just set forth differs from pure bimetallism for India? Also, the objection may be made that, if it does not

differ, and if bimetallism be good for India, there will be a better chance of the Home Government sanctioning the latter if it stand alone than if it be mixed up, as in these proposals, with arrangements extending to England.

20. The scheme is tantamount to bimetallism for India, but it involves more besides, without which India, owing to her distance and isolation from Europe, and to the fact of so large a proportion of her trade lying with gold-monometallic England, cannot reap as much benefit from bimetallism as continental nations and America can. If I have properly explained myself, it will be clear that the arrangements in England for coining and keeping in hand dollars for shipment to the East (*supra*, paragraph 14, clauses 5, 6, and 7) are part of the essence of the scheme for raising and steadying the exchange. Without a natural par, much fluctuation and uncertainty must remain. The proposal to issue the dollar, or four-shilling piece, in England as part of the subsidiary coinage (clause 8 of paragraph 14) stands distinct, resting on separate ground, and is chiefly designed to add to the demand for silver, and to afford a substantial guarantee to continental bimetallic countries like England, though indifferent, is not hostile to their system. The first seven clauses of the scheme ought, I submit, to stand or fall together—unless, indeed, only a limited advantage is to be reaped from the present opportunity. But the eighth might be suggested separately, and not indispensably, for the adoption of the Home Government, if that course were deemed more politic and safe.

21. The popularity which the measures are likely to attain cannot be left out of account. In India, there can be little or no doubt of their favourable reception. Goldmoburs have been, from the days of the Mahomedan Emperors, in general use on account of their portability, easy concealment, beauty as ornaments, and ready conversion from the purpose of adornment to that of expenditure. Sovereigns hold the same position. The volume already referred to contains ample proof of this well-known fact. The dollar possesses similar advantages, proportioned to its different value and bulk, and is to this day largely used for the objects above indicated. Moreover, neither sovereigns, nor the new dollars and half-dollars, will be any distressing novelty. Sovereigns are already well known (as stated by Sir Charles Wood), "double rupees" were part of the currency previous to the Act of 1835, and the new half-dollars will be identical, within *6105 of a grain*, with the old sicca rupee. As to England, there appears no reason why anybody should take objection to what is proposed. The gold monometallic standard will remain intact, and its retention will be authoritatively and explicitly affirmed. The coining of dollars at the Mint for exportation will be immaterial, and even unknown, to the British public. Their issue as subsidiary coin can do no harm, for its regulation by Government will prevent excessive supply and they will not issue at all except as people like to take them. It may be added that the party favourable to bimetallism has largely increased during the last two years, and has received some notable accessions.

22. The manner in which the measures are likely to be received by the Home Government must also be considered. On this point, speaking with all due reserve, I should suppose the India Office to be generally favourable, the Treasury perhaps less so. But Lord Hartington, speaking on the 9th March last on behalf of Her Majesty's Government to a deputation from the Liverpool Chamber of Commerce, is stated in a report of the interview just issued by that Chamber, and put up herewith, to have spoken as follows:—

"England was exceedingly anxious in the interests of India that something should be done. He was very glad to see gentlemen who had thought out and fully understood the

matter, because, as the deputation was aware, there were many eminent financiers who did not hold the same views, and the greater number of competent persons who supported such opinions as those expressed in Mr. Chapman's Memorandum, the greater confidence the Government of India would have in endeavouring to carry out the recommendations contained in that Memorandum."

This reply was considered by the deputation to be very satisfactory.

23. In conclusion, complete action at the earliest possible date seems very desirable; for, whatever is to be done can probably be considered most thoroughly and quickly if put forward complete, and now, while the whole question is prominent in England. The effect on silver, too, will probably be greater in proportion as the measures adopted by the Conference, or in connection with it, are more complete, and uncertainty in the future is eliminated. There are, however, two degrees of urgency in the matter. As the Conference meets on the 19th instant, and the question of England's action is still undecided (possibly pending our reply), it is necessary to inform the Secretary of State almost immediately whether the Government of India desires to be represented at the Conference, and if so, on what general basis. But the definite measures which this Government proposes for adoption would probably be in time if telegraphed a little later, after fuller consideration than is at once possible.

24. For the present purpose it would suffice to telegraph to the following effect:—

"Your Financial Despatch No. 94 of 10 March. We consider that India should be represented at Conference on the basis that we will engage to coin silver in unlimited quantities at our mints, to continue the use of silver as legal tender for debts of any amount for the period the proposed convention remains in force, and to promote the re-appreciation of silver by any further currency measures which we may find suitable to the circumstances of India; but that we reserve the right of also coining gold freely, and making it so legal tender, whenever hereafter Government thinks fit. Telegram regarding further measures, and despatch, will follow as soon as possible."

I may explain that the object of the allusion to further measures is, while not actually pledging us to anything, to give confidence to the Conference and our delegates that we are, at the worst, friendly neutrals, and not possible adversaries.

25. By the above course the immediate occasion will, apparently, be met, while sufficient time will be reserved for considering whether the measures suggested, or others in furtherance of the same general object, should be adopted.

XXXVI.

MINUTE BY SIR EVELYN BARING, DATED 19TH APRIL 1881.

The telegraphic answer which was sent to the Secretary of State on the 13th instant did not deal fully with the important question upon which our opinion has been asked. I now submit to His Excellency the Viceroy and my Honourable Colleagues my views on this question at greater length than in my former brief note of the 11th instant.

2. Bimetallism is not to be classed amongst such proposals in respect to currency as have from time to time occupied public attention, and as to which the whole weight of competent authority has generally been opposed to the views advocated by a few reformers. It meets with the approval of many able men who speak with the weight of unquestionable authority. To quote only a single name amongst continental authorities, I may mention M. Laveleye, the eminent Belgian economist, who is a strong supporter of bimetallism. Even in England, although monometallic views prevail generally, the bimetallic cause has certainly gained ground. Thus in 1879 the Liverpool Chamber of Commerce formally declared its opinion in favour of bimetallism; and Mr. Hucks Gibbs, who, as a member of the Paris Conference in 1878, expressed himself in a sense adverse to bimetallism, has now publicly declared that he has changed his opinion.

3. More than this, I think the bimetallists may fairly urge that in many cases, at all events, the issue which they raise has not been met by their opponents. Mr. Giffen (*Essays in Finance*, p. 307) says that the objection on the ground of impracticability has up to the present time appeared "so strong," that "for no other reason Mr. Bagehot and other monometallists have steadily declined to discuss bimetallism." The English Commissioners at the Paris Conference in 1878, whose names give very great weight to any opinions they may have expressed, do not discuss the question on its own merits. "We considered," they say, "that the impossibilities of establishing a bimetallic system by common agreement for all the world were so obvious, that it was scarcely worth while to argue the matter." A "universal double standard" they characterised as "a Utopian impossibility," and the "establishment of a fixed ratio of gold and silver" as "utterly impracticable." There can be no doubt that in 1878 the scheme was impracticable. The proceedings of the Conference show that unanimity was impossible. But it does not necessarily follow that the divergence of opinion, which was a conclusive objection to bimetallism in 1878, should always continue to exist.

4. Mr. Bagehot, again, in his work *On the Depreciation of Silver* devotes one short chapter (XVII) to "universal bimetallism." He had before considered the scheme "so entirely beyond the boundaries of practical finance, that he had not thought it worth discussing." He then proceeds to discuss it very briefly, his arguments being mainly directed to show that the English people, "with their usual untheoretical common sense," would not, as a matter of fact, join the Bimetallic Union; and he concludes by saying that "the plan is only a theory on paper, and will never be in practice tried." That England will not now join the Bimetallic Union on her own behalf is certain; but it is open to question whether the refusal of England is absolutely fatal to the success of the Union. It is certain that France and the United States are prepared to adopt bimetallism, and there is reason to suppose that other Governments may be willing to join the Union. It is, therefore, not impossible that, although "universal bimetallism" will not be tried, a great step may be made towards universality.

5. The mass of English opinion on this subject is probably represented in a short pamphlet of four pages published by Mr. Thomson Hankey, in reply to Mr. Cazalet and Mr. Gibbs. "I thought and hoped," Mr. Hankey says, "that nearly all the political economists and statesmen in this country had agreed in the opinion that a single gold standard should be, as it has been for nearly all this century, the sole standard of value in this country (England)."

Mr. Hankey does not deal with any of the arguments advanced by Mr. Gibbs or Mr. Cazalet, but he says that he "believes that Lord Liverpool was right in the very decided opinion he expressed on this subject in 1805; and he hopes that the question will not further be pressed for consideration in this country." These considerations are possibly sufficient to deal with the question from the purely English point of view; but I do not think that the Government of India should be altogether satisfied by an argument so inconclusive as an appeal to authority, more especially if it be remembered that the conditions under which the problem presents itself are in many respects different to those which prevailed in the days of many of the authorities who are quoted—for instance, Locke and Lord Liverpool.

6. It is perfectly natural that each community should look upon this question mainly from the point of view of its own interests, and with reference to the peculiar circumstances in which it is for the time being placed. The depreciation of silver has, no doubt, caused some derangement to English trade, but the inconvenience is not so acutely felt as to constitute an evil of the first magnitude. It is only seriously felt by one class of persons, namely, those interested in the Eastern trade. Were this not the case, we might be sure that English public opinion would not remain so quiescent on the subject as it has done up to the present time. We know that in 1837, and again in 1847, when the inconvenience of a single gold standard happened for the moment to be felt, considerable pressure was exerted on the Governments of the day to admit silver into circulation—a pressure which was resisted, and, I do not doubt, wisely resisted. As it is, however, the English people see other nations, which do not possess a single gold standard, in some difficulties, whilst they are comparatively secure. It is, therefore, no matter of surprise that they should deprecate any change in their own system of currency. I am very far from saying that they are wrong. India, however, is in a very different position to England. To her the question of the relative value of gold and silver is of vital importance. We cannot say that our position is free from inconvenience, and that on that account we deprecate any change. We may say, indeed, that we must beware lest the inconveniences from which we suffer hurry us into the adoption of an economic fallacy, which may be productive of still greater evils; but our actual condition is such as to render it imperative on us to consider any possible remedy for existing evils with closer interest and attention than would probably be bestowed upon the subject in England.

7. I proceed, therefore, to examine the question from the Indian point of view. I shall be obliged to touch upon the principles of the Bimetallism to some extent; but inasmuch as the subject is so technical, I shall, in your favour, so far as possible, to confine myself to the points which are directly in so far as it affects India; and the proposals with which I shall conclude are only such as apply to the special case of India.

8. Before proceeding to discuss the immediate point at issue, however, I should wish to say something as to the point in which, as far as the Government of India is concerned, we ought to approach the question. The true standard of value, and of the Indian Treasury in the East India Company, is not the rupee, at all want in India is to approach the true standard, the rupee, at

will bring it to its old par value of *1s. 10½d.* I do not think that this is an accurate way of stating the case. It is true that all persons who receive fixed incomes in rupees, such as Government officials and the holders of rupee securities, are interested in the appreciation of the rupee. Supposing such persons to spend all their incomes in India, the degree to which they are interested depends upon the extent to which the depreciation of the rupee has brought with it a loss of purchasing power. This, of itself, is a very difficult question, which I have not as yet seen thoroughly examined. That those who receive a fixed income in rupees, and who have to turn their rupees into sterling, should wish for a high rupee, is obvious. The interests of the mass of the people of India may perhaps be, to some extent, the other way. All producers of jute, cotton, etc., would, supposing the rupee to have lost its purchasing power, receive more rupees than heretofore for their produce. This advantage would be to some extent neutralised by their paying higher for such articles as they consume; but one considerable item of their expenditure—*viz.*, the sum which, in the form of rent or land revenue, they pay for the right to cultivate the soil—is in some cases fixed in perpetuity, and in others only capable of increase under certain conditions and at certain intervals of time. So long, therefore, as the rupee is not depreciated to such an extent as to necessitate the imposition of fresh taxes, landowners and cultivators will probably in different degrees gain by the depreciation. But this advantage would disappear to a great extent if any re-adjustment of taxation took place, even though the fresh taxation might not take the form of a direct enhancement of the land revenue.

9. The degree to which the Indian Treasury is affected by the value of the rupee expressed in sterling raises a very complex question, which I will

Loss by Exchange has been estimated at £3,475,000, on the assumption that £17,200,000 will be remitted home at *1s. 8d.* the rupee. There appears on the revenue side of the Account a *Gain by Exchange* of £412,000. Thus the net *Loss by Exchange* is estimated at £3,063,000. I need hardly point out that these are adjusting entries, and the difference between them does not furnish the true measure of the loss to India from the recent change in the relative values of gold and silver. In order to arrive approximately at the real loss by exchange, we must assume a normal relative value between gold and silver. When that relative value was as 1 to 15½, the 165 grains of pure silver contained in a rupee were worth *1s. 10½d.* The net sterling expenditure at the Home Treasury of the Government of India may now be taken at £14,750,000 (true sterling). £14,750,000 at *1s. 8d.* the rupee equals *₹17,70,00,000*. At *1s. 10½d.* the rupee, £14,750,000 equals *₹15,64,64,000*. The difference is *₹2,05,36,000*. On this basis, therefore, the real loss to the Indian Treasury in 1881-82 resulting from the disturbance of the equilibrium previously existing between gold and silver may be estimated at £2,053,600.

not now attempt to discuss exhaustively. In the paragraph of the last Financial Statement which I quote in the margin, I pointed out that, on the assumption that the normal relative value of gold to silver was as 1 to 15½, the real *Loss by Exchange* to the Indian Treasury in 1881-82 might be approximately estimated, not at £3,063,000, which is the net sum that appears under this head in the estimates, but at £2,053,600. I said advisedly that this estimate was "approximate," for, in fact, it is not based on a consideration of all the elements necessary to the true elucidation of the question. In order to arrive at the real loss to the Indian Treasury, we should have to consider to what extent the high prices recently obtained for opium are due to the depreciation of the rupee; to what extent the higher prices we are now paying for opium in Behar are due to the same cause, and some other points of a similar nature. We should also, if we wish to examine the probable loss in the future, have to consider to what extent some branches of our revenue—for instance, our railway tariff—might be revised without any really increased demand from the tax-payers. This would be a very difficult calculation to make. Indeed, it would be well nigh impossible

to obtain all the elements required for making it. I think, however, that we may say that, were a calculation made on a consideration of all the elements which bear on the question, it would be shown that the loss which the Indian Treasury must necessarily incur by reason of the present depreciation of the rupee is considerably less than the sum of ₹2,05,36,000, mentioned in the Financial Statement. There would, however, probably always be some loss, because the Land Revenue, from which we receive annually about £22,000,000, is either fixed in perpetuity, or only capable of increase at long intervals; and although it has been held that landowners may properly be called upon to pay local cesses and income-tax in addition to their ordinary land revenue, there are considerable political objections to pushing too far the argument that they are generally liable to any direct taxes which may be imposed on them.

10. The actual loss, however, although a matter of great importance, is not, in my opinion, the point to which the greatest importance should be attached. The real evil to which we are now exposed is, that we never know what our loss or gain may be. I have, on former occasions, frequently dwelt upon the fact that, however prosperous the present condition of Indian finance may be shown to be by reference to the actual receipts and expenditure for the last two or three years, we are exposed to very peculiar dangers in the future from a variety of causes, such as the precariousness of the opium revenue and the growing pressure of the population on the soil. On the other hand, our expenditure is perhaps more uncertain than that of most countries. Disturbing causes, such as war and famine, which are met by lavish outlay, are constantly succeeding each other. With all these elements of doubt, the one thing needful for an Indian financier is to be able to know on what he can really rely. It is difficult to initiate with confidence any policy of fiscal reform if, at any moment, our estimates are liable to be upset by sudden and gratuitous drain on our resources, arising from circumstances wholly beyond our control. What we desire is fixity, and an assurance that when we have figures before us, we know what they really mean. Further, it is to be observed that the fluctuations in exchange exercise a deterrent influence upon that flow of capital from England to India which it would be so beneficial to establish. A man naturally hesitates to invest his money in a country in which he may suddenly find the income on which he had depended reduced in very considerable proportions owing to a change in the relative values of the precious metals. I should, therefore, much prefer a high to a low rupee. But what we most of all require, and what the commerce of India requires, is not so much a *high* rupee as a *stable* rupee. Any legitimate means to secure this object should, therefore, meet with our approval.

11. At the same time, I fully recognise that a false step, which it would be very difficult to retrace, might lead to evils even greater than those from which we are now suffering; that the whole burden of proof rests on the bimetallicists; and that the principles which they advocate, being opposed to those held on such matters by almost all leading economists and statesmen up to the present time, should undergo the most severe criticism before they are accepted. Whilst, therefore, I think it would be in the highest degree unwise to refuse a fair and impartial hearing to the bimetallicists, I also think that the public should be essentially conservative and cautious. I am reminded of Mr. Giffen's remark (*Essays in Finance*, p. 206) that "the adoption of bimetallicism would be a colossal error." It is an argument which, so long as we are not compelled to adopt it, I would, at present, therefore, go no further than is absolutely necessary to aid in securing the

main objects we have in view—namely, the rehabilitation of silver, and the insurance of stability to the rupee. It will be seen, therefore, that the point of view from which I approach the subject is not altogether the same as that of Mr. Hope, who in the latter part of his note (paragraphs 13-16) advocates certain measures which, as he states, are (paragraph 20) “tantamount to bimetallism for India,” and “more besides.” Notably Mr. Hope dwells upon the fact that the circulation of gold as legal-tender currency in India is in itself a thing to be desired. I do not propose to discuss this point. I would, for the present at all events, go no further than absolute necessity demands. I only advocate such measures as, with the least possible disturbance of existing arrangements, will suffice to meet our main objects, which, I repeat, are the rehabilitation of silver, and the insurance of stability to the rupee.

12. One further preliminary point—and it is one of great importance—requires to be mentioned. Before we can advantageously discuss the nature of the remedy which should be applied to existing evils, we should have some accurate ideas as to the causes which operated to bring about those evils. They are thus stated in a Memorandum of Mr. Chapman’s, dated 2nd June 1880:—

“There is not, now, it is believed, any doubt (1) that the long-standing equilibrium between gold and silver continued, till 1873, generally, because, whilst it prevailed, no considerable change took place, throughout the world, in the several national standards of value, and, especially, because the French monetary law of 1803 provided for the constant optional interchange of the two metals at a fixed ratio; (2) that the disturbance of that equilibrium since 1873 is the consequence of the substitution of gold for silver as the standard measure of value in Germany, followed by the closure of the mints of the Latin Convention to the less valuable metal, and the withdrawal of the optional interchange of the two metals heretofore allowed within the jurisdiction of that Convention.”

Again (paragraph 20) Mr. Chapman says:—

“The international bimetallic standard measure of value, actually, to a great extent, prevailed throughout the whole world, as long as the French monetary law of 1803 was in operation. This truth may not, even yet, be generally recognised; but it is indisputable that, so long as gold and silver were freely interchangeable in France at a fixed ratio, that ratio necessarily governed the relations of the two metals, and therefore the value of each throughout the world. The sole gold standard of England and the sole silver standard of India were, alike, wholly subject to the influence of the French law, and not, as has been supposed, independent of it; the values of England’s gold and India’s silver were absolutely controlled by the French law. Doubtless that law could only operate freely and fully while France possessed sufficient stores of both metals. Before the gold discoveries of 1848 and 1851, the French monetary law had assisted to maintain the value of silver measured in gold which commanded a small varying premium; and, had the gold discoveries of California and Australia been repeated, conversely, as her silver stores were exhausted, the French monetary law would have, in like manner, assisted to maintain the value of gold measured in silver. Put this only shows that the demand for metallic, that is, intrinsic money, in France alone, great as it is, is not sufficient to maintain such a law permanently, under all circumstances; and must not be allowed to obscure the fact that the French bimetallic law alone did confine fluctuations in the relative values of gold and silver throughout the civilised world, for three-quarters of a century, within narrow limits.”

13. No doubt other causes, besides those to which Mr. Chapman alludes, have contributed to the depreciation of silver. Those causes are stated at length in the Report of the House of Commons Committee of 1876. Moreover, I conceive that Mr. Giffen is right when he argues (*Essays in Finance*, p. 295) that when gold was expelled from France in 1848 by reason of the fall in the value of silver, French bimetallism could not have arrested a further fall. This argument, however, only proves that one nation alone is not powerful enough to uphold bimetallism. I agree, however, with Mr. Chapman, in

* See also, in confirmation of this view, report of the Committee of the House of Commons, p. v., and Bagehot *On the Depreciation of Silver*, p. 41.

factor in regulating the price of silver all over the world. Further, I conceive it to be true that the full measure of the importance to be attached to the action of the French is only now

† Bimetallism in England and Abroad, pp. 19-23.

being gradually recognised, although I may mention that M. Cernuschi gives good reasons for supposing that Sir Robert Peel, who was one of our greatest currency authorities, was aware of this fact. The importance of the latter consideration lies in the fact that the non-recognition of the full importance to be attached to French bimetalism, as it existed from 1803 to 1873, rather invalidates the authority of the older writers on this subject, and enhances that of writers of a more recent date, who treat the subject with a more thorough knowledge of the whole of the phenomena connected with it.

14. I dwell on Mr. Chapman's arguments because, if it be once admitted that the stability which lasted for seventy years, and the instability which has lasted for nine years, are alike due, not so much to the operation of economic laws, as to the action of France and Germany—*i.e.*, to purely preventible causes,—a strong presumption is raised that, theoretically at all events, those violent fluctuations in the values of the precious metals, from which we have been so recently suffering, may, to a great extent, be prevented by international arrangement. I say that this is a strong presumption. It is not, of course, a certainty. In the first place, other causes besides those dependent on the action of France and Germany have, as I have already mentioned, certainly contributed to the depreciation of silver. In the second place, geological and engineering skill may, in the future, enable the precious metals both to be discovered in greater quantities, and to be produced at less cost, than in the past; whilst, at the same time, increased facilities for locomotion and communication, the extension of the clearing-house system, and other analogous measures may enable the trade of the world to be carried on with a smaller amount of metallic money than at present. Thus it is conceivable that the whole problem will present itself under different conditions in the future to those which have prevailed in the past or which prevail in the present.

15. I will now state very briefly what the present currency system of India is, and what it would be were India to join the Bimetallic Union.

16. At present India is monometallic. We have an unlimited silver currency. Silver in unlimited quantities may be presented at the Indian mints, and the Government is obliged by law to coin that silver into pieces each containing 165 grains of pure silver to 15 grains of alloy. The relative value of gold and silver was as 1 to 15½, the value of a rupee, expressed in sterling, was, as nearly as possible, 1s. 10½d. It is now about 1s. 8½d. Gold bullion, when presented, is also coined at the Indian mints into mohurs; but these are not legal tender.

17. If India were to join the Bimetallic Union, both gold and silver would be received in unlimited quantities at the Indian mints, and both would be legal tender to an unlimited amount in the same manner. We should have to possess what the French call the *faculté de frapper*, and we should have to issue a gold coin at our mints, which we do not at present.

thinking that, of all the causes which have led to the depreciation of silver, those which he mentions are the most important,* and that the French monetary law of 1803, so long as it remained in force, was the chief

Further, I conceive it to be true that the full measure of the importance to be attached to the action of the French is only now being gradually recognised, although I may mention that M. Cernuschi gives good reasons for supposing that Sir Robert Peel, who was one of our greatest currency

The importance of the latter consideration lies in the fact that the non-recognition of the full importance to be attached to French bimetalism, as it existed from 1803 to 1873, rather invalidates the authority of the older writers on this subject, and enhances that of writers of a more recent date, who treat the subject with a more thorough knowledge of the whole of the phenomena connected with it.

I dwell on Mr. Chapman's arguments because, if it be once admitted that the stability which lasted for seventy years, and the instability which has lasted for nine years, are alike due, not so much to the operation of economic laws, as to the action of France and Germany—*i.e.*, to purely preventible causes,—a strong presumption is raised that, theoretically at all events, those violent fluctuations in the values of the precious metals, from which we have been so recently suffering, may, to a great extent, be prevented by international arrangement. I say that this is a strong presumption. It is not, of course, a certainty. In the first place, other causes besides those dependent on the action of France and Germany have, as I have already mentioned, certainly contributed to the depreciation of silver. In the second place, geological and engineering skill may, in the future, enable the precious metals both to be discovered in greater quantities, and to be produced at less cost, than in the past; whilst, at the same time, increased facilities for locomotion and communication, the extension of the clearing-house system, and other analogous measures may enable the trade of the world to be carried on with a smaller amount of metallic money than at present. Thus it is conceivable that the whole problem will present itself under different conditions in the future to those which have prevailed in the past or which prevail in the present.

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pleased, and which might be of any value we pleased, but which must always bear to our silver standard coin the ratio adopted by the other members of the Bimetallic Union. This ratio would very probably be 1 to 15½, but need not necessarily be so. Some other consequences would result from joining the Bimetallic Union, but I confine my observations to the main issue, which is that which I have stated above.

18. The fundamental principle of bimetallicism is thus stated by M. Cernuschi, one of the most able and persistent advocates of the system :—

“ Si les grandes nations se mettent concordamment à frapper monnaie d'argent pesant 15½ fois leur monnaie d'or la valeur relative des deux métaux sur le marché général de purra

* M. Michel Chevalier, et le Bimétallisme, plus varier; un poids d'or vaudra partout 15½ poids d'argent. Tout le bimétallisme est là.”*

Money, M. Cernuschi argues, is not to be confounded with merchandise—

“ To speak of merchandise is to speak of competition, supply and demand, purchase and sale price. To speak of money is nothing of the kind. Whether he produces little or much, at a profit or a loss, no miner can sell his metal-money either dearer or cheaper than other miners, for the simple reason that the metal-money is not sold or bought—it is itself its price. Neither offered nor demanded, as soon as it issues from the mines the metal enters of full right into circulation, and its paying power will be identical with that of the metal already circulating—with which it proceeds to mix itself. Thus there is no competition, no buying or selling, no price. Such are the immunities inherent in the monetary metal. Gold and silver, alike, necessarily enjoy them when the monetary law is bimetallic. Therefore, no competition is possible between the producer of gold and the producer of silver, no purchase and sale, no discount, no price between one metal and the other. Without their being offered, without their being demanded, the circulation absorbs them both at the legal par, and cannot refuse them. When the monetary law is bimetallic, neither gold nor

† Silver Vindicated, 1876.

silver, coined or uncoined, is merchandise. *That is the secret.*”†

The same principle is stated by Mr. Hucks Gibbs more briefly in the following words :—

“ The metal of which the money is composed is indeed a commodity, but when made into money it ceases to bear that character. *Money is not a commodity but a measure of commodities.*”‡

‡ Silver and Gold, p. 16.

19. In the books and papers I put up with this note the soundness or otherwise of the principles above enunciated are discussed at great length. Most of the writings are on the side of the bimetallicists. The monometallicists, as I have already mentioned, have so far, for the most part, treated the scheme as impracticable, and many of the most eminent amongst them have declined to discuss fully a question which they consider of purely theoretical interest. I cannot hope within the limits of the present note to deal with all the arguments and counterarguments that have been used. I offer, however, a few observations on some of the main points.

20. The main argument adduced against the bimetallicists is, that gold and silver do not differ essentially from other commodities, and that it is, therefore, impossible to establish and maintain any fixed ratio between them. Thus, Mr. Picton says :—

“ The price of silver bullion in the market is little over 4s. per ounce. If, therefore, we have the privilege of paying in either metal, it is quite clear that silver would very soon drive out gold altogether. Why should a man

§ On the Depreciation of Silver, and the remedies proposed to obviate it, p. 13.

pay £100 in gold if £80 worth of silver will answer all his purpose ?”§

The same argument is repeated in different forms in many of the monometallic writings. The answer of the bimetallics, so long as the essential conditions of the problem remain as at present, appears to be so far conclusive, that, if all the civilised Governments of the world became bimetallic on the 1 to 15½ basis, the price of silver would certainly rise to about 5s. an ounce. Silver at 4s. an ounce would not be procurable in the market. To argue otherwise appears to me to involve the fallacy that the value of metallic

* Money, Trade and Industry, p. 145.

money depends on cost of production; whereas, in the words of Professor Walker,* "the value of metallic money is not governed by

the cost of production, in the present or in the past, but results solely from the relation existing between demand and supply, the past cost of production being only relevant as having influenced the present supply, the present cost of production being only relevant as likely to influence the future supply." Further, the bimetallics are unquestionably right, as a matter of fact, when they maintain that, at present, there is a practical monopoly of demand for the precious metals for currency purposes. On this point Mr. Cazalet's argument seems unanswerable:—

"Unquestionably," he says, "if the bulk of the trade in gold and silver were in the hands of manufacturers, it would be very difficult, if not impossible, for the Governments of Europe combined to regulate the price of these metals. But is this so? The consumption of gold and silver for manufacturing and all other purposes exclusive of currency is estimated at 5 per cent. of the total annual production. It certainly does not exceed 10 per cent., and the whole of the remainder, from 90 to 95 per cent., is produced for the Governments of the world for currency purposes. Consequently it is not in the hands of manufacturers, with a comparatively trifling exception, the only market for which is as long as an unlimited demand exists for such articles, the Governments of Europe have it in their power to fix and maintain their relative value." †

† Bimetallism, and its connection with Commerce, p. 27.

Mr. Fawcett also remarks (*Manual of Political Economy*, p. 498):—

"The amount of silver annually required for arts and manufactures is, comparatively speaking, so small, and fluctuates so little from year to year, that it exercises little influence on the value of silver."

21. It is, of course, theoretically conceivable that the stocks of either gold or silver or of both metals may be exhausted, or, on the other hand, that they may be so largely increased as to render one or other or both as common as iron or coal. In the former case some other metals would of necessity have to be used for currency. In the latter, the demand whose supply was increased, would be demanded more largely for manufacturing purposes and the practical monopoly of demand for currency purposes would be broken, that is to say, the metal would be no longer precious, and would be unsuitable for currency purposes. All that can be said of these contingencies is, that they are very improbable; that their improbability is the main reason why gold and silver are held to be better adapted for currency purposes than other metals; that if any one of them occurred, it would cause some inconvenience to some nations; and some inconvenience to all nations, under any system, whether monometallic or bimetallic; that there is no present inducement for the stock of either metal becoming exhausted; and that, although fluctuations must of course occur in the relative amount produced of each metal, it is improbable that either one or other will be produced in such large quantities as to break down the practical monopoly for currency purposes, for that competition will always step in and, by raising the cost of production, limit the amount which it will be worth while to produce.

22. I do not, therefore, see any economic fallacy in the theory of universal bimetallicism if it

* The total metallic circulation of the world is said to be about 1,400 millions sterling, of which about 750 millions are gold and 650 millions are silver. Mr. Cazalet says (page 22 of his pamphlet) that, taken together, the aggregate production of gold and silver amounts to 40 millions sterling. "This," he says, "does not exceed 3 per cent. of the total circulation of each metal. Of this yearly production, nearly one-third is required to make good the wear and tear of the metals, one-third is wanted for increased population and the development of trade, and only one-third remains to supply the demands of manufacturers. It would require a very large increase in the production of these metals to exercise any appreciable influence on the value of the total currency of the world. But if this is unquestionably true with regard to both metals taken conjointly, it is not equally true with regard to each metal taken separately. The annual production of gold has fallen within the last thirty years from £36,000,000 to about £20,000,000, whilst the production of silver has increased from 10 millions sterling to 20 millions sterling per annum in the same period. That is to say, the production of gold has decreased by 44 per cent., and the production of silver has increased by 100 per cent. The variations in the production of both metals taken conjointly have never exceeded 15 per cent.—*viz.*, the difference between £46,000,000, and £40,000,000. Consequently, if, as is universally acknowledged, the desire of all economists be to provide as far as possible against rapid fluctuations in the volume of a currency, the fact that the two metals circulating together on an equal footing afford a much surer guarantee against such fluctuations than either of these metals taken separately would give, is a very strong argument in favour of bimetallicism."

be stated thus—that so long as no very great change takes place in the aggregate and relative quantities in which up to the present time gold and silver have been produced, it would be possible by common agreement amongst all the nations of the world to preserve a fixed ratio between gold and silver; further, that it is probable that no such great variations will take place in the available stocks of either of the precious metals as to render the preservation of the fixed ratio impossible.*

23. I gather that Mr. Giffen admits as much as this. "Of course," he says—

"if all countries were bimetallic—supposing that to be a possible arrangement—exchanges would be steadier just as they would be if all were monometallic upon the same basis. So much may be granted on this head to the bimetallicist argument."

And again—

"Yet another advantage is alleged for bimetallicism, *viz.*, that the standard of value set up by it will probably be more stable from period to period than a standard of one metal only. And on the doctrine of chances it would seem there is, perhaps, some foundation for this statement. There is some probability that the chances of one metal fluctuating in value in reference to itself from period to period will be partly compensated in a double standard system by the chances of the two metals not fluctuating in the same direction. But in this matter, it seems to me, the doctrine of chances is not a sufficient guide for action. The preponderant probability, on one side or the other, is not very great—it appears something like two to one in favour of bimetallicism; whereas, for a guide to action, the probability should be so great as to amount almost to certainty. The assumption on which the doctrine of chances is appealed to is, moreover, not quite warranted. In real life, it may be assumed, nations will not be constant in their monetary arrangements. In the future, as in the past, changes of price, political aspirations, the love of imitation, and hundreds of other motives, will induce one nation to change gold for silver, or silver for gold, or to give up bimetallicism for one or the other metal. The result may well be that, after a long lapse of years, the change of one metal in value in reference to itself will be no greater than the change in the combination of the two. In any case the differences over long periods in the relative stability of monometallic and bimetallic standards of value hardly seem an object worth any great concern to a State."†

† Essays in Finance, p. 300.

24. Mr. Giffen appears to me to underrate the probability of a fixed ratio between gold and silver being maintained through the agency of universal bimetallicism; and for the rest, although I am inclined to adopt a conservative attitude on this question, I am not inclined to push conservatism so far as Mr. Giffen. His argument, in fact, practically amounts to this—that under no conceivable circumstances should even universal bimetallicism ever be tried. I fully go with Mr. Giffen in his subsequent remark, that constant alterations of the money in use by a State are to be strongly deprecated, and that M. Wolowski's contention that such alterations are of slight consequence is fallacious. It is also, no doubt, true that, even were a general international agreement made, there could be no positive assurance that some one State belonging to the Union would not break through its engagements and secede. Whether the world is all monometallic, or all bimetallic, or partly one and partly the other, we must always be exposed to possible changes in monetary arrangements, arising from political aspirations, the love of imitation, and the other motives to which Mr. Giffen alludes; but the question is, are we not more exposed to these changes so long as no general agreement exists, than we should be if such a general agreement could be brought about? At this moment we, in India, are suffering from changes made in their monetary arrangements by Germany in the first instance, and by France in the second. I conceive that there can be no doubt that we should be less exposed to fortuitous changes of this nature, were a general international arrangement made in respect to the currency systems of the civilised world, than we are at present in default of any such arrangement. If any such arrangement is ever made, it will probably be on a bimetallic basis. A general monometallic arrangement on the basis of either gold or silver is quite impracticable; whilst, for the present at all events, it seems almost equally impracticable to come to any arrangement on the basis that some nations should bind themselves to adopt a single silver and others a single gold standard. This latter arrangement, moreover, would not ensure stability in the relative value of the precious metals to so great an extent as an universal bimetallicism; and, as I have already mentioned, it is stability which India most of all requires.

25. I have so far only dwelt on universal bimetallicism, which is admittedly a question of only theoretical interest. It is, however, desirable to have a clear idea of the theory of bimetallicism before proceeding to discuss its immediate practical issues involved. We know, however, that universal bimetallicism is, for the present at all events, impossible. England, for instance, will not join. The admission that universality is impossible unquestionably weakens the case in favour of bimetallicism considered from a practical point of view. The bimetallicists, however, argue that, although particular bimetallicism—that is to say, the bimetallicism of only one State,—cannot work in practice, absolute universality is not necessary to attain the objects which they have in view. It is only necessary, they contend, to ensure agreement amongst a group of nations sufficiently large to be able to absorb all the silver or gold which any increase of production in the case of one or other nation can bring to their mints. To put the case in another way, the more abundant nation can absorb more than a certain quantity of the production of the other, and that if the monometallic countries be limited to a small minority, they will not be able to denude the bimetallic countries entirely of all but the more abundant metal, and so bring about a general change in the fixed ratio between the two metals which these countries may have adopted. Mr. Giffen, on the other hand, says* that the dissent of any one of the smaller States of Europe

* *Essays on Finance*, p. 307.

is fatal to the plan of the bimetallists. On this, as on some other points, Mr. Giffen appears to me to overstate his case. I am inclined to think that absolute universality is not essential to the success of the plan; but it must be admitted that the nearer universality be approached, the more certain will be the attainment of the objects which the bimetallists have in view. Coming, now, to the practical point at issue, which is whether we shall recommend to the Secretary of State that India shall now join a Bimetallic Union, it is essential to know what other States will join, and what States will remain isolated. All we know for certain on this subject at present is, that France and the United States are prepared to join the Union, and that England is not prepared to join on her own behalf. It is probable that the countries belonging to the old Latin Union, that is to say, Switzerland, Italy, Belgium and Greece, will join with France. It is said that Germany, Austria, and Holland are inclined to join. If this be true, no doubt a strong coalition would be formed, but on these points we have no certain knowledge; neither should we be justified in basing any official recommendations upon assumptions, however probable. Further, of the intentions of the Scandinavian Union we know nothing, except that in 1878 their delegates were strongly averse to bimetallism. The question, therefore, as it presents itself to us for the moment is, whether France and the United States alone would be sufficiently strong to carry into practice the bimetallic principle. I think there can be little doubt that if these two States only were to enter into a Bimetallic Convention, silver would, for the time, be rehabilitated, and stability would be given to the rupee; but I should not consider the combination sufficiently strong to justify our recommending India to join, more especially as it is not essential, in order to attain the immediate objects in view, that India should join. In the present state of our knowledge, therefore, I do not think we can go further than the position indicated in our telegram to the Secretary of State of the 13th instant; that is to say, India should, for the present, only engage to coin silver in unlimited quantities, and to continue the use of silver as legal tender for debts of any amount, for the period the proposed Convention remains in force. If the adhesion of India were absolutely essential to the formation of the Union, I should be inclined to go a step further, and to express an opinion that if the United States, the Latin Union, Germany, and Austria are prepared to join, the coalition would

* This opinion would of course, in any case, only cover the general principle. The terms on which we should join would require careful consideration. As to the terms proposed we know nothing officially; but an apparently accurate account of the proposals to be submitted to the Conference appeared in the *Times* of March 23rd. I may mention that the 4th and 5th Articles appear to be open to some objection; but I will not go into these points now. They are not such as to raise any insuperable difficulties.

be sufficiently strong to justify India also in joining.* But the adhesion of India is not absolutely essential to the formation of the Union, or, at all events, it does not appear to be so, in so far as our present knowledge of the subject enables us to judge. We are, in fact, in a very peculiar and in some respects advantageous position as regards bimetallism. We can do all that is required of us to ensure the present success of the Union, without any change of system. I incline to think that theory points to the conclusion that no great danger would be incurred in joining the Union. But, at the same time, we must remember that we are dealing with a subject of very great difficulty; that bimetallism, as it is about to be tried, is an experiment; and that very high authorities on currency consider the system unsound. Under these circumstances, it appears to me, as I have already mentioned, that we

should, as far as possible, preserve our liberty of action. I see no reason why we should not derive all the advantages possible from our peculiar position. It is true, that by taking up this position other nations may possibly try the experiment; that we should derive all the benefit from it; and that, if the experiment succeeds, we might eventually become bimetallic. But why should we not let them do so, if they, from the necessities of their positions, are obliged to become bimetallic, whilst we may remain monometallic?

26. I might conclude here, but there are one or two further arguments in connection with the general question to which it may be as well that I should allude.

27. The effect of any general adoption of the bimetallic principle might be to increase largely the amount of money in the world. It need not necessarily be so, for competition would probably step in and, by increasing the cost of production, limit the amount produced. Assuming, however, that the amount of money in the world were largely increased, the result would be that there would be a universal and gradual rise of prices. I need not discuss the general question of whether abundant money is, in itself, a thing to be desired, or not. I confine myself to the consideration of the question in so far as it affects the position of the Government of India. As I have already observed, the adhesion of India is not essential to the success of the Union. All that other bimetallic nations really require from us at present is that we should continue to coin silver in unlimited quantities, and to consider silver as unlimited legal tender. Anything we may do beyond this will be dictated, not from our action being necessary to the present success of the Bimetallic Union,—although, perhaps, the adhesion of India would have a certain moral effect and might induce others to join,—but from a belief that a legal gold tender for India is, in itself, a thing to be desired. It results, therefore, from our peculiar position that any universal rise of prices, which may take place by reason of the decisions of the Bimetallic Conference, is a matter altogether beyond our control. It can be caused by a combination of States altogether independent of India. The argument that prices might rise has, therefore, no very practical bearing on the case, in so far as the action to be taken by India is concerned.

28. A further point which has to be considered is the altered nature of the relations between the State and the public creditor. Inasmuch as it is to be presumed that England will adhere to her single gold standard, no change would be made in the relations between the Government of India and the holders of sterling stock. But in the case of the holders of rupee securities, whereas we are now under an obligation to pay them in silver only, we should, in the event of India joining a Bimetallic Union, be empowered to pay them in either silver or gold. Inasmuch as the immediate result would, almost certainly, be to raise considerably the price of our rupee securities, it is exceedingly improbable that any complaints would be made by the holders of those securities. If, however, it be considered that any considerable alteration whatsoever in the relations between the State and the public creditor is to be deprecated, the difficulty would not be insurmountable. It would be a perfectly possible, although somewhat troublesome, arrangement, to convert the whole of our rupee securities into a new debt, the interest of which would be payable in either silver or gold.

29. A further point which deserves consideration is the effect upon private contracts which would result from India joining a Bimetallic Union. Mr. Thomson, in the pamphlet from which I have already quoted, alludes to the possibility of every financial arrangement, both of a national as

well as of a private character, has been made on the basis of a single gold standard in England for a long period of time." In so far as England is concerned, the objection on this score to joining the Bimetallic Union may, no doubt, be considerable. It is one, however, which applies in a far less degree to India. The principal derangement which would be caused to private contracts in India would be, not so much owing to the fact that gold would become legal tender in India, as to the fact that the rupee would be enhanced in value. This enhancement, as I have already observed, will, should a Bimetallic Union be formed, take place, even though India were not a member of that Union. The matter is, for all practical purposes, beyond the control of the Government of India. Further, it is to be observed that, in many cases at all events, contracts have been deranged by the depreciation of the rupee, and that its appreciation would merely have the effect of restoring them to their original conditions.

30. There is yet one further argument to which I would allude.

* *Essays in Finance*, p. 298.

Mr. Giffen argues* that, even if universal bimetallicism be possible, and if it would realise the advantages to which its advocates lay claim, those advantages are hardly worth attaining. "Is universal bimetallicism," he argues, "worth aiming at for the sake of mere steadiness of the exchanges? I cannot but think that, when really looked at, the alleged superiority of bimetallicism in this respect, as in regard to its promotion of more abundant money, amounts to very little." He then goes on to deal with the special case of India. He argues that the evils of the fluctuations in exchange have been "enormously exaggerated;" and that "to introduce bimetallicism would be to make a permanent alteration in a monetary system to meet a temporary evil." In his *Notes on the Depreciation of Silver* (p. 207) he points out that the real way for India to meet the financial difficulties caused by the depreciation of silver is to devise measures "to enlarge and strengthen the sources of income." In a confidential paper, entitled *Statement of the Real Silver Difficulty in India and how it should be met*, he dwells more at length upon the same subject.

31. I venture to think that Mr. Giffen rather underrates our difficulties and dangers, and, moreover, that he fails to appreciate the degree of danger to which we are exposed. I admit that the evils resulting from the fluctuations in exchange may have been exaggerated, and that, should the rupee remain at its present value of about 1s. 8d., our financial difficulties are by no means insuperable, nor such as to call necessarily for any heroic remedies. But Mr. Giffen appears to me to forget that what has happened once may happen again. For some years the finances of India have been deranged, owing, mainly, to the action of Germany, and the consequent suspension in France of the monetary law of 1803. How can we be sure that this will not happen again? Exchange may, indeed, settle down at 1s. 8d. Our whole financial arrangements may be adjusted on this basis, and stability to the silver market may possibly for a few years be insured; for I cannot conceive it possible that at

† Professor Walker says, speaking of the German demonetisation, that "the history of the century will be searched in vain for a political blunder of equal enormity."—(*Money, Trade, and Industry*, p. 191.)

present any other nation would be induced to demonetise its silver.† But how can we be assured that a few years hence a further demonetisation may not take place, with the result that the rupee may be driven down to 1s. 4d., or lower? We should then be again obliged to re-adjust our whole financial system.

The result would be that we should probably either have to push economies in

the Civil Administration so far as to cripple the progress of the country; or that we should have to reduce our Military Establishments to a dangerous extent; or that we should have to look out for new sources of revenue. The difficulty and even political danger of this latter step appears to me to be underrated by Mr. Giffen. Mr. Giffen, in fact, seems to lose sight of the common place argument on this subject, which has always been enforced by every economist, that fluctuations in the value of gold and silver are a great evil, and that because it was deemed that those fluctuations were improbable, those metals have been chosen for the currency purposes of the world. Thus,

• Manual of Political Economy, to quote only a single instance, Mr. Fawcett p. 354. says*—“It is evident that a substance should

be selected as money which is subject to the smallest possible fluctuations in value: upon this quality mainly depends the efficiency with which money can fulfil the functions which are required from it as a standard of value.” It cannot be said that during the last few years silver has met the requirements for currency purposes on which Mr. Fawcett in common with others, lays so much stress. The fluctuations have been very great. Whether bimetallism is the best method of preventing those fluctuations, and whether, even if it be the best in theory, it is possible in practice, is a question on which, without doubt, much difference of opinion may exist; but looking to the financial history of India for the last few years, I cannot agree with Mr. Giffen that the advantages of obviating those fluctuations are not very great. On the contrary, it appears to me, from the Indian point of view, that they are so great as to make it imperative on us to consider carefully every legitimate method for preventing them.

32. Such are the observations which I have to submit to His Excellency the Viceroy and my Honourable Colleagues on this very difficult and important question. They are the result of careful and prolonged deliberation, for, in anticipation that this question would arise, I have, for many months, been from time to time studying it, and during the last few weeks I may say that I have studied nothing else. At the same time, the question is one of such extreme difficulty, that I submit my views with much hesitation, and it is very possible that further discussion may lead me to modify them.

XXXVII.

NOTE BY MR. T. C. HOPE, DATED 12TH MAY 1881.

1. My note on this subject, dated April 9th, brought our information down to that date and was followed by the telegram to the Secretary of State, sanctioned by the Council on the 13th idem.

2. The information which we have since obtained as to the proceedings of the Conference is almost entirely unofficial, and consists of the following by Reuter's telegrams :—

"*Paris, 19th April.*—The Monetary Conference commenced its sittings to-day. England, France, Germany, the United States, Russia, Austria, Italy, Spain, Portugal, Belgium, Holland, Greece, Denmark, Sweden and the Swiss Confederation were all represented. The French Minister of Finance, who was elected President of the Conference advocated the bimetallic standard."

"*London, 18th April.*—The *Times* publishes a paragraph stating that Sir Louis Mallet will specially represent India at the Metallic Conference in Paris. Canada and England will each send a representative."

"*Paris, 20th April.*—The members of the Monetary Conference have appointed a Committee of fifteen to frame a programme. The Committee will meet on the 23rd instant. A plenary sitting will be fixed later on."

"*Paris, 4th May.*—The Committee of the Metallic Conference has now arranged the draft of the programme; and the Conference will shortly re-assemble."

"*Paris, 5th May.*—At a meeting of the Metallic Conference to-day, England was represented by the Honourable C. W. Fremantle, Deputy Master of the Mint, and India by Sir Louis Mallet and Lord Reay. After an exchange of views, the Conference adjourned."

"*Paris, 6th May.*—At the meeting of the Metallic Conference to-day a divergence of views was manifested by the representatives assembled. Germany will adhere to the gold standard only, but intimated her willingness to suspend her sales of silver for several years, and consented also to withdraw the five-mark gold coin from circulation. England, India, and Canada stated that they only agreed to participate in the Conference in deference to the invitation received. They offered to give information upon the subjects under discussion, but would not vote. Russia, Sweden, the Swiss Confederation and Greece would, under certain reservations, adopt a bimetallic standard. Austria regretted the difficulty of the situation in which she was placed owing to the forced currency existing in that country. The other representatives remained silent."

"*Paris, 7th May.*—At the meeting of the Metallic Conference to-day, the delegate of the Netherlands Government advocated a bimetallic currency; but, on the other hand, the Belgian delegate urged the maintenance of the *status quo* currency everywhere."

"*Paris, 10th May.*—At a meeting of the Metallic Conference to-day, the Italian delegates spoke on behalf of a bimetallic standard. The delegate of the Swiss Confederation (M. Burckhard Bischoff) dwelt upon the scarcity of gold in the Swiss Confederation. M. Thörner, the Russian delegate, advocated a gold standard."

"*London, 11th May.*—Mr. Gladstone, in reply to a question in the House of Commons last night, said that the action of the Secretary of State for India in sending delegates to the Metallic Conference in no way committed the India Government to anything in the nature of the adoption of a bi-currency. The Secretary of State for India will not encourage any material change in the monetary policy of India, but any measure calculated to promote the re-establishment of the value of silver will be favourably considered."

3. The London *Times* of March 24th publishes a letter from its correspondent at Paris, giving the official text of the draft resolution which France and the United States intend to advocate at the Conference. A summary of the letter, and the text itself, is subjoined :—

"The Paris correspondent of the *Times* gives the following official text of the draft resolution expressing the leading ideas which France and the United States propose to advocate at the Paris Monetary Conference, which is to open on the 19th of April. It is, he says, quite understood that the Powers invited to the Conference are in no way committed either to the terms of the invitation or to any programme, but will be free to recommend

any measure which may improve international monetary relations, nor will any Power be bound to abide by the resolutions which may be adopted by the others :—

"1. Whereas bimetallicism, or the monetary system which consists in simultaneously coining any quantity of gold and silver on the footing of a legal ratio between the weight of the monetary unit in gold and the weight of the same unit in silver, had always been practised, and that only since a few years has it ceased to operate in any part of the world ;

"2. Whereas, during nearly a century, the principal continental mints had coined at the legal ratio of $15\frac{1}{2}$ all the quantities of gold and silver presented for coinage, whereby alone, whatever the vicissitudes in the production of gold and the production of silver, the relative value of the two metals was necessarily fixed in the entire world at the par of $15\frac{1}{2}$, nobody in any country agreeing to part with either gold or silver at a less advantageous ratio than that which it was known could be realised in Europe at the mints which were bound at the rate of $15\frac{1}{2}$ to convert into coin having legal currency without limit of amount all the metal they were asked to coin ;

"3. Whereas, by this universal par of value between gold and silver, the monetary material of the entire world formed a single mass as homogeneous as if it had been composed of a single metal, but with this evident and very important superiority, that its paying power was much more stable than would have been the paying power of gold disjoined from silver, or of silver disjoined from gold ; and this because the greater or less stability of that paying power depends on the greater or less regularity of monetary production because the production of gold is very irregular, also that of silver, while the joint production of the two metals valued at the legal ratio, is quite sufficiently regular ;

"4. Whereas the above-mentioned universal par between the value of the two metals was of the greatest service to countries subject to monometallicism, such as gold monometallic England and silver monometallic India, which countries, owing to that par, could mutually settle their pecuniary dealings with almost as much facility and certainty as if they had one and the same metal as common money ;

"5. Whereas, as soon as silver was no longer freely admitted to coinage by the States which had previously been bimetallic, the universal par of value between the two metals necessarily disappeared ; and inasmuch as through that disappearance the bimetallic and homogeneous material possessed by the world was decomposed into two monometallic materials heterogeneous to each other—the material gold, the sole metal admitted to free coinage in Europe and America, and the material silver, the sole monetary metal in Asia, a twofold monometallicism, which has rendered the commercial and financial relations between the two halves of the world almost as complicated and hazardous as if the exchanges between them were made by barter ;

"6. Whereas, moreover, the States of the Continent of Europe and the United States of America, while admitting gold alone to free coinage, are encumbered with coined silver, and the silver coins of one country cannot be converted into money in other countries unless in Asia, but then undergoing all the loss resulting from the difference between the ratio at which such silver has been coined with regard to gold and the much smaller ratio of gold realised on disposing of silver for an Asiatic destination now that the universal par no longer exists—a ratio which would become smaller and smaller if the offers for sale of silver happened to be resumed and continued ;

"7. Whereas it is, in fact, impossible to withdraw from circulation and get rid of the coined silver, not only because of the terrible fall which the Asiatic exchange would experience and of the enormous losses which would have to be borne, but also because of the immense void such withdrawal would leave behind it—a monetary void which could not be filled either with the present gold, which has already its use, or with the future gold, which has not yet issued from the mines in general and that chaos extremely prejudicial to the interests of all nations, without a single exception, is solely attributable to monetary laws now in force in Europe and the United States, and cannot be put an end to except by reverting to bimetallicism ;

"8. And whereas such reversion to bimetallicism and the adoption of the ratio $15\frac{1}{2}$ by a preponderating group of nations would have the immediate effect of re-establishing on a solid basis the old universal par of value between the two metals, of enabling without any loss to employ its old silver crowns in paying America, and reciprocally of enabling the United States, when their balance of trade allows it, to pay Europe with silver from their mines ; and, lastly, of making silver a universal money, while retaining gold on the footing of $15\frac{1}{2}$ as European and American money ;

"Now, therefore, actuated by all these considerations, the American, French, etc., delegates have resolved by common accord to submit to the ratification of their respective Governments the following Convention :—

"Article I.—The United States of America, the French Republic, etc., form themselves into a Bimetallic Union on the terms and conditions hereinafter stipulated.

" *Article 2.*—The members of the Union shall admit gold and silver to mintage without any limitation of quantity, and shall adopt the ratio of 1 to 15½ between the weight of pure metal contained in the monetary unit in gold and the weight of pure metal contained in the same unit in silver.

" *Article 3.*—On condition of this ratio of 1 to 15½ being always observed, each State shall remain free to preserve its monetary types—dollar, franc, pound sterling, mark, or to change them.

" *Article 4.*—Any person shall be entitled to take any quantity of gold or silver, either in ingots or in foreign coins, to the mints of any member of the Union for the purpose of getting it back in the shape of coin bearing the State mark; the mintage shall be gratuitous to the public; each member of the Union shall bear the expense of its mintage.

" *Article 5.*—The mints of each State shall be bound to coin the metal brought by the public as speedily as possible and at the aforesaid ratio of 1 to 15½ between gold specie and silver specie; the coin thus manufactured shall be delivered to the person who shall have brought the metal or to his assigns; if the person bringing gold or silver requests immediate payment of the sum which would accrue to him after the interval of mintage, that payment shall be made to him subject to a deduction which shall not exceed two per thousand; the sum shall be handed over at the will of the paying party in gold or silver coin or in notes being legal-tender and convertible at sight into metallic money.

" *Article 6.*—The gold and silver money shall alike be legal tender to any amount in the State which shall have manufactured them.

" *Article 7.*—In each State the Government shall continue to issue as a monopoly, its small change or tokens; it shall determine their quantity and quality, and shall fix the amount above which no person shall be bound to receive them in payment.

" *Article 8.*—The fact of issuing or allowing to be issued paper money, convertible or otherwise, shall not relieve the State issuing it, or allowing it to be issued, from the above-stipulated obligation of keeping its mints always open for the free mintage of the two metals at the ratio of 1 to 15½.

" *Article 9.*—Gold and silver, whether in ingots or in coin, shall be subject to no customs duty, either on importation or exportation.

" *Article 10.*—The reception of silver shall commence at the same date in all the mints of the Union.

" *Article 11.*—The present Convention shall remain in force till the 1st of January 1900. If a year before that date notice of its abrogation has not been given, it shall of full right be prolonged by tacit renewal till the 1st of January 1910, and so on by periods of ten years until such notice of abrogation shall have been given a year prior to the expiration of the current decennial period; it being, however, understood that notice of abrogation given by States having in Europe less than 20 millions of inhabitants, or subject to the inconvertible paper money system, while releasing those States, shall not prevent or interfere with the decennial tacit renewal of the present Convention between the other members of the Union."

This official programme is substantially the same as the sketch given in paragraph 5 of my note of April 9th.

4. Regarding the course of public opinion in England, we find in the latest advices from England facts proving a very decided awakening and advance. The lead of Liverpool, mentioned in paragraph 22 of my note of 9th ultimo, has been followed by Manchester, Glasgow, and an influential body of the merchants of London. The memorials, though not directly advocating bimetalism, evince a strong opinion that existing monetary conditions are unsatisfactory, and a desire that everything, short of establishing that system in England itself, should be done to restore the position of silver in the currency of the world. The following extracts afford a convenient summary of the movement :—

From the London "Times."

" Mr. Slagg, M.P., yesterday placed in the hands of Lord Hartington, the Secretary of State for India, a memorial with 1,700 signatures, including those of nearly all the leading firms in and about Manchester, expressing the strong desire of the memorialists that England, and especially India, should be represented at the approaching Monetary Conference, in order to the restoration of silver to its due place in the monetary systems of the leading Powers."

From the "Times of India."

"Although what has been called the 'taint of bimetallism' has certainly spread widely in the highest quarters in this country, it cannot be said that the prospects of a favourable issue to the Monetary Conference are increasing. The reason is said to be that, while France, the United States, Spain, and Italy have agreed to accept bimetallism at the ratio of 1 to 15½, England has declared that she will be unable to take part in a conference whose conclusions of which have been practically fixed in advance. The meeting of the conference on Monday will be duly formed, and an adjournment for another fortnight will be necessary. The postponement, we are told, has therefore been decided upon in order to allow France and the United States to enlarge the original programme of the Conference, and so to formulate the questions that it may no longer appear as if the freedom of action of the Conference was prejudiced. If this be the case, it will probably be regarded as increasing the probability that the Conference will not separate without some result. As one of your Brussels contemporaries remarks, 'the endeavour to satisfy the proper technical objection of the British Government to discussing foregone conclusions may be accepted as an expression of an earnest desire on the part of the promoters to settle the questions at issue on as comprehensive a basis as possible, and as being at the same time a declaration that hopes are entertained that a solution may be arrived at which will be satisfactory to the British representatives.' Meanwhile the British Government are under the ordinary pressure from the commercial interests. I have already mentioned the presentation of a memorial from Manchester, signed by 1,700 firms, praying that England may be represented at the Conference. On Saturday (April 9) a memorial, signed by a large number of the most influential bankers, merchants, and others in the City of London, was presented to Lord Hartington, earnestly begging that the interests of this country may be represented, as they view with apprehension the effects on commerce and industry of the future of our Indian Empire, arising from the present position of the silver question proposed to be discussed by the Conference, and the further postponement in values which may result from a failure of its settlement.' Among the signatories of this document were the Oriental Bank, the Chartered Mercantile Bank of India, Australia and China Bank, the Chartered Bank of India, Australia and China, the Bank of India, and Shanghai Bank, Dent, Palmer & Company, Anthony Gibbs & Company, Messageries Maritimes and Oriental Steam Navigation Company, Ernsthausen and Oesterley, the Delhi and London Bank, the Borneo Company, Chalmers, Guthrie & Company, Smith, Wood & Company, Anderson, Finlay & Company, Phelps, James & Company, Steel Brothers & Company, Frederick Huth & Company, and Morton, Rose & Company. A memorial signed by 334 of the leading firms of Glasgow and the neighbourhood, representing a capital of not less than £30,000,000, has also been forwarded to the Marquis of Hartington, praying that Great Britain may be represented at the Conference. The terms of the memorial are as follows:—

- (1) We, the undersigned merchants, &c., of Glasgow and its neighbourhood, being subjected, directly and indirectly, to serious losses and inconveniences by the fluctuations of exchange with silver paying countries are materially interested in the Imperial and Monetary Conference to be held in Paris in the course of this year.
- (2) We are of opinion that the British Government should be represented at this Conference, in order to consider a question of some and universal importance, and so to secure the interests of the vast British Empire with India, China, Japan, Mexico and the West Indies.
- (3) We view with much anxiety any further disuse of silver as a coinage by the nations of Europe, not only because of the serious effects on the exchanges with silver-using countries which must follow, but also in view of the dangerous disturbance certain to result in the value of gold, and consequently in the home and colonial markets.
- (4) We, therefore, pray that representatives of the Imperial and Indian Governments may be sent to the Conference, and that the British Government may be authorised to stipulate that at least the Indian Empire be allowed to continue to use silver, and that the Government intend to purchase silver for the use of the British Majesty's Indian possessions.

The above memorial has been signed by the views published by the Times, and a pro-unionist. It ascribes all the trade depression of the last few years to the growing divergence between the values of silver and gold. It mentions the distress of the farmers and landowners of this country, which have been commonly

to bad harvests and foreign competition, Mr. Cazalet places side by side with the losses of India and China merchants and of the Indian Government as being largely due 'to the disordered state of the currency of the world.' Mr. Cazalet goes so far as to say that English cotton-spinners are suffering because their French competitors are paying wages in silver, which is depreciated to the extent of 18 per cent. Mr. Cazalet omits to remember that money values in France are as purely on a gold basis as our own, and that consequently the French employer has no advantage over his English rival. M. de Laveleye, formerly a monometallist, has addressed a letter to his colleagues of the Cobden Club, in which he urges that the success of the United States which 'by elevating their customs duties, have created a favourable balance of trade payable in metal' will be a precedent fatal to Free Trade if the struggle for gold is allowed to continue. Germany, he says, advanced her duties because she saw her gold ebbing away. Luzzatti, who usually represents Italy in negotiating treaties of commerce, has not hesitated to declare that Italy will do the same if she sees the gold which she is about to borrow again leaving the country. Russia has already adopted the same measures in order to have the means for resuming a specie circulation by keeping the gold which she produces, and she now exacts payment of her duties in gold. The demands of the French protectionists will become irresistible if the drain of gold from France continues. Finally, Austria has adopted the same policy, and also exacts payment of her duties in gold. 'People will read the excellent works which the Cobden Club distributes by thousands; but the law of Darwin (the law of the struggle for existence) will prevail, and everybody will exclaim—"Rather an advance of the tariffs which is felt by the foreigner than an advance of the rate of discount which is felt at home." It is erroneous, M. de Laveleye contends, to say that the principles of Free Trade lead to the single standard; on the contrary 'the single standard kills Free Trade.' 'America,' he concludes, 'has sent messengers of peace to Europe to initiate union and harmony instead of antagonism. If Europe does not accept the hand which is offered to her, and the economic struggle is allowed to continue, rest assured that it is not America which will succumb.' Lastly, Mr. Seyd has issued a pamphlet in which he undertakes to show 'how England may maintain her gold valuation 'and yet give 'support to silver.' This is to be done (so he argues) by simply adding to our coinage a four-shilling piece, which is not to be a token like our other silver coins, but to be as near as possible intrinsically worth that sum."

5. From the telegrams regarding the Conference, though they are rather confused and ill drawn up, we may apparently infer that the matter is not progressing so unfavourably as has been supposed, or as the recent fall in silver seemed to indicate. The old Latin Union of France, Switzerland, Italy, Belgium, and Greece adhere to bimetalism, and they have gained new allies in Holland, the Scandinavian Union, and the United States. Regarding Austria the report is apparently favourable, and as to Russia it is conflicting; but neither one of any practical importance. The declaration of Germany, I take to mean this, that, though adhering in name to her gold standard, she will retain her silver thalers in legal-tender circulation at their present proportion of $15\frac{1}{2}$ to 1 of gold, and will aid silver not only by making no more sales, but by withdrawing her 5-mark gold pieces and letting thalers, or silver pieces of the same value, take their place. This is virtually all that could be wanted or expected of her. She, of course, could not throw her mint open to coin the silver of other people until she had used up the silver she possesses of her own; and this she will do, in keeping up the thalers and other silver coins during the term of years to which reference is made. The most unsatisfactory point in the whole is, that the Indian delegate has, apparently, not made any declaration in the terms of our telegram of the 13th ultimo or otherwise, but has merely "offered to give information."

6. As to the state of matters in England, it is clear that considerable pressure has been put upon the Government from influential quarters, and that they are by no means unaffected by it. Mr. Gladstone's reported utterance two days ago is especially encouraging. He does not go further against bimetalism than to say that the Indian Government are not "committed" to it by the fact that they have sent a delegate. His statement that "the

Secretary of State for India will not encourage any material change in the monetary policy of India" is qualified by the declaration that "any measure calculated to promote the re-establishment of the value of silver will be favourably considered." What is a "material change," and what measures, short of such a change, are alluded to? That no Government could propose bimetallism for England itself is clear; but then, we do not ask that any Government should do so.

7. Under these circumstances, I venture to represent that, possibly, a very material influence towards a favourable settlement might be exercised if the Conference were *at once* informed how far we were prepared to go, and assured that we were friendly, as far as our circumstances would allow. I would suggest the despatch of the following telegram to the Secretary of State:—

"Reuter reports that Indian delegate on 6th instant merely offered information. We think success of Conference and re-establishment of value of silver would be promoted if delegate announced retention by Indian Government of silver coinage, with liberty to add gold hereafter, in terms of our telegram of 11th ultimo, and also intention to coin silver 34-anna pieces here for circulation in India and in London for remittance to East only, together with retention by Bank of England of about five millions silver balance under Peel's Act."

8. The first portion of this telegram merely asks that what the Governor General's Council agreed to on the 13th ultimo may be declared. The second is an adoption of the first, second, fifth, sixth, and seventh of the steps suggested in paragraph 13 of my note of April 9th—that is, of only such part of my proposals as relates to silver, and to its use *in India*. The result will be, first, the facilitation and cheapening of silver remittances to England and the raising and steadying of the exchange, as explained in my fifteenth and twentieth paragraphs; and secondly, the increase of the demand for silver as explained in my paragraph 18. The steps omitted I deem as desirable as ever; but, under the pressure of circumstances, they can stand over at present. The recommendation in this limited form does not, I would point out, involve bimetallism at all, and cannot be termed a "material change in the monetary policy of India." It is merely for the addition of a coin to our silver currency and the providing of it at a place, namely, London, where it is in practice found to be much required. As such, it seems to fall well within the category of measures "calculated to promote the re-establishment of the value of silver," for which Mr. Gladstone promises favourable consideration.

XXXVIII.

NOTE BY THE HONOURABLE SIR E. BARING, DATED 13TH MAY 1891.

I submit a further Note which Mr. Hope has prepared upon the proceedings of the Bimetallic Conference at Paris. This Note shows clearly what is the present state of our knowledge of the proceedings of the Conference. I cannot think that the present state of affairs is satisfactory. We have received officially no information in respect to the course of events in Paris. The last telegram from the Secretary of State, dated the 11th May, informs us that a despatch will leave London to-day communicating the appointment of Sir Louis Mallet and Lord Reay as delegates to the Conference, with their instructions. Until this despatch is received, it is said it will be unnecessary for us to reply to former despatches. The views of the Government of India upon the theory of bimetallism are, for the moment, of less practical importance than the attitude adopted by the Indian delegates at Paris. The main question now is, what attitude those delegates should adopt. It may well be that any final decision must be postponed until the proceedings of the Conference have been reported; but the nature of the report will, of course, largely depend upon the declarations now made by the delegates. It becomes, therefore, very important to decide whether any immediate action is to be taken or not. I have frequently stated that on this subject I consider we should do wisely in adopting an attitude of caution and conservatism. Inasmuch as the main objects we have in view, namely, the rehabilitation of silver and the assurance of stability to the rupee, may be gained without India joining the Bimetallic Conference, I am of opinion that no declaration that we are prepared to join the Union is in any case necessary, even if we were more thoroughly convinced of the theoretical merits of bimetallism than is probably the case. But there appears to me to be a vast difference between adopting an attitude of caution and the purely passive attitude which, so far as I can gather from Reuter's telegrams, is now being adopted by the Indian delegates. The result of the Conference is of vast importance to India. I think we can do more than adopt an attitude of indifference, which can well be construed into one of hostility. We may surely show that, although we may not be prepared to adopt the bimetallic principle, we are, at all events, friendly neutrals, and are prepared to adopt certain measures which will, perhaps, help towards the objects in which we, in common with many other nations, are vitally interested. I can see no possible harm or danger in the declaration being made, which was proposed in our telegram of the 13th April, and I attach special importance to our saying that we reserve to ourselves the right of coining gold later, if we think fit to do so. Such a declaration is tantamount to saying that, although we are not at present prepared to join the Bimetallic Union, at the same time we do not absolutely pin ourselves down to the principle of monometallism, but that we are still open to conviction, and may possibly, at some future period, reconsider our position. I can see no possible harm or danger in this. To adopt any other attitude is to go the length of Mr. Giffen and the extreme monometallists, whose position really amounts to this—that not only are they at present convinced of the unsoundness and impracticability of universal bimetallism, but that they are not open to conviction by the light of future experience. This is not caution, it is prejudice.

It will be seen that Mr. Hope also proposes that we should intimate our willingness to coin 34-anna pieces. I can see no possible objection to this

either. The proposal, as now modified, is not bimetallism. In fact, it may be considered wholly independent of bimetallism or monometallism. It merely amounts to this, that should, by reason of the adoption of the bimetallic principle, the value of gold to silver be restored to the old proportions of 1 to 15½, we shall have a coin in India which represents one-fifth of a sovereign, and will, therefore, be convenient. Moreover, if the English Government will consent to coin a certain number of these pieces at their mint, which shall not be legal-tender in England, but shall be used merely for transmission to the East, a very considerable facility will be afforded to merchants who wish to remit silver to India; for, instead of having to buy up Mexican dollars, etc., and send them to the Indian mints to be coined, they will be able to obtain from the Bank of England a silver coin which, on arrival in India, will at once enter into circulation. If the English Government is really in earnest in wishing to adopt such reasonable measures as, without in any way changing their present currency system, may afford some help to India, I cannot see what objection there can be to the adoption by England of the course proposed. An alteration would be necessary in the Bank Act to this extent, that silver coin and bullion, instead of silver bullion only, might, to a limited extent, say five millions, be held against currency notes.

It will be seen that Mr. Hope proposes to telegraph to the Secretary of State. I agree in the general sense of this telegram; but I think, considering the importance of the subject, it will be desirable to express our views at somewhat greater length. I would telegraph as follows:—

“Renter reports Mr. Gladstone’s proposal for the re-establishment of value of silver coin in India. Indian delegates merely offer a passive. We think that, as proposed, the intention of India to retain silver coin is of opinion that India should announce its willingness to coin similar pieces at mint for remittance to East only, together with modification of Bank Act in the sense of allowing silver coin and bullion to be held against currency notes, instead of silver bullion only.”

XXXIX.

DESPATCH FROM THE GOVERNMENT OF INDIA, TO THE SECRETARY OF STATE FOR INDIA, NO. 143, DATED 10TH JUNE 1881.

We have the honour to acknowledge the receipt of Your Lordship's despatch No. 79, dated 24th February 1881,* in which we are invited to state our views, "in the event of its being proposed that India should become a member of a Union, based on principles of bimetalism for a limited term of years."

* No. 1. Telegram to Secretary of State, April 13th, 1881.

No. 2. Telegram from Secretary of State, May 11th, 1881.

No. 3. Telegram to Secretary of State, May 13th, 1881.

No. 4. Telegram from Secretary of State, May 14th, 1881.

No. 5. Telegram from Secretary of State, May 17th, 1881.

No. 6. Telegram to Secretary of State, May 18th, 1881.

No. 7. Telegram to Secretary of State, May 25th, 1881.

No. 8. Telegram from Secretary of State, May 25th, 1881.

2. Since the receipt of that despatch, the telegrams, copies* of which are enclosed in this despatch, have passed between Your Lordship and the Government of India. We learn from Your Lordship's telegram of the 25th ultimo that the Paris Conference has been adjourned to 30th June. We take the opportunity thus afforded to us of stating to Your Lordship our views at greater length than is possible in telegraphic communications.

3. It would be difficult to exaggerate the importance to India of the subject on which an expression of our opinion has been invited. The real loss by exchange to the Indian Treasury during the current year, resulting from the disturbance of the equilibrium previously existing between gold and silver, may be approximately estimated at $\text{Rs}2,05,36,000$ (see paragraph 80 of the Financial Statement for 1881-82). The actual loss, however, although a matter of great importance, is not, in our opinion, the point to which the greatest importance is to be attached. The real evil to which we are now exposed is, that we never know what our loss or gain may be. Silver having during the last few years, failed to fulfil the chief function which is required of a standard of value. It has been subject to great fluctuations. Under these circumstances, it is difficult to initiate, with confidence, any policy of fiscal reform. Our estimates are liable to be upset at any moment by a sudden and gratuitous drain on our resources, arising from circumstances wholly beyond our control. We are aware that it has been sometimes argued that the evils arising from fluctuations in exchange have been exaggerated, and we agree in thinking that if the value of the rupee would settle down at, say, 1s. 8d., our financial difficulties would be by no means insuperable. We cannot, however, forget that the present condition of the silver market is deranged, owing mainly to the action of Germany and the consequent suspension in France of the Monetary Law of 1803. We can have no assurance that what has happened before may not happen again. Exchange may indeed, eventually, settle down at a figure, liable only to such changes as are consequent on variations in the balance of trade. Our whole financial arrangements may be adjusted on this basis, and stability to the silver market may possibly, for a few years, be ensured. But we can never feel sure that a further demonstisation of silver will not take place, with the result of again depreciating the

* Not printed in this volume.

rupee. We should then be again obliged to re-adjust our whole financial system. The result would probably be that we should either have to push economy in the civil administration so far as to cripple the development of the country, or that we should have to reduce our military establishments to a dangerous extent, or that we should have to look out for new sources of revenue—a course attended with considerable difficulty and open to some political objections. A further depreciation of silver is, indeed, at present by no means a remote or improbable contingency. Should, unfortunately, the Conference now sitting in Paris not result in any satisfactory arrangement, we can hardly hope that silver will remain at its present value. It seems more probable that a further depreciation will ensue.

4. We have dwelt upon the difficulty of initiating, with confidence, any policy of fiscal reform in the present condition of the silver market. We need scarcely remind Your Lordship of the many important questions bearing on the finances of India which remain at present in a position more or less unsettled. Powerful interests are constantly being exerted in England, with a view to reforms being effected in our customs tariff, and to a modification of the system under which our opium revenue is derived. The reduction of the salt tax is a measure which would confer great benefit on the population of India, and one to which our attention has frequently been directed by high authorities in England. The recent report of the Famine Commissioners abundantly testifies to the inadequate manner in which large tracts of country are protected against famine; and even if private enterprise be enlisted to aid in the construction of protective works, we can scarcely hope that these will be constructed without causing some temporary drain upon our resources. In the present unsettled condition of the silver market, it is well nigh impossible to deal in any satisfactory manner with these and other questions, which in themselves present difficulties of no ordinary description.

5. The subject on which our opinion has been invited, is one upon which great difference of opinion exists amongst the highest authorities, whether in respect to the theories involved, or in respect to the practicability of giving effect to those theories. Under these circumstances, we think that our attitude should be one of caution and conservatism, and that we should go no further than necessity demands, in order to accomplish the main objects we have in view, namely, the rehabilitation of silver and the insurance of stability to the rupee. At the same time, it is so important that no action on behalf of India should be wanting to attain those objects, that we should hesitate to reject any means that we can legitimately adopt in order to ensure the success of the present Conference.

6. Whatever difference of opinion may exist upon this difficult question, we think that it will be generally admitted that even what is called particular bimetallism,—that is to say, the bimetallism of one State,—supposing it to be possible, would contribute to the objects we have in view, and that the attainment of those objects is rendered more and more probable as the number of States which entered the Bimetallic Union is increased. It is now universally admitted that the French Monetary Law of 1803 was, during the course of its operation, one of the chief factors in regulating the relative values of silver and gold throughout the civilised world. Mr. Stanley Jevons, himself a monometallist of distinction, has said that “for some 50 years it (that is to say, the value of silver) was held pretty steadily at this point (15½ to 1) by the action of the French Currency Law.”

7. We do not think it necessary that we should enter into a discussion

upon the theory of bimetallism, or that we should dwell on the many important collateral points on which such a discussion must necessarily touch. It would be impossible to treat the subject adequately within the limits of an ordinary despatch. We will only say, therefore, that the whole question has received our very careful attention, and that, should Your Lordship think it desirable, we are prepared to state at greater length the reasons which have led us to the conclusions which we are about to enunciate. For the present, we confine ourselves to a statement of those conclusions.

8. In our telegram of 13th April, we expressed our opinion that—

“India should be represented at the Conference on the basis that we will engage to coin silver in unlimited quantities at our mints, and to continue the use of silver as legal tender for debts of any amount for the period the proposed Convention remains in force, reserving the right of also coining gold freely and making gold also legal tender if hereafter Government thinks fit.”

At the same time we said that we had not as yet had time to consider thoroughly the question of whether any further measures could be adopted for rehabilitating silver and affording stability to the rupee, but that we hoped shortly to address Your Lordship on the subject. We gather from Your Lordship's Despatch No. 157 of 12th May, that the instructions given to the Indian Delegates are generally in accordance with our suggestions, with the exception that, according to those instructions, the term of years during which we are to engage that silver should be freely coined at the Indian mints is limited to ten. In our telegram of 18th May we have again expressed our opinion that the period for which India might pledge herself to continue the coinage of silver should not be limited to ten years, or other definite period, but should extend to the period during which the Convention of other nations remains in force. We are glad to learn from Your Lordship's telegram of 25th May that the statement of the Indian Delegates was favourably received. The value of that statement, we conceive, consists in this, that other nations will be assured that in the event of their taking measures, the result of which will be the rehabilitation of silver, India will be under an obligation not to take advantage of those measures in order to adopt a single gold standard.

8A. We are inclined to think that this declaration is all that other Powers require from the Government of India, and we are confirmed in this impression by the statement in Your Lordship's telegram of 25th May, to the effect that no “further action on the part of the Indian Government has hitherto been suggested.” Without a more full report of the proceedings of the Conference than is at present available to us, it is difficult for us to express any further definite opinion as to the attitude which the Indian Government should adopt. It is difficult to predict, with confidence, what in the ultimate future would be the result if India were to join the Bimetallic Union. There is much to be said against anything in the nature of an experimental change in a currency system. It is, therefore, certainly an advantage to preserve full liberty of action for the future to the greatest extent possible; and if it is clear that the step already taken by the Indian Delegates is all that is required on the part of the Government of India, we should deprecate any further pledge being taken. We are unable to say how far a declaration on the part of the Government of India that they are willing to join a Bimetallic Union, would materially influence the results of the Conference. Should, however, the alternative present itself, between allowing any international arrangement to break down and pledging India to join the Bimetallic Union, we are of opinion that we should be justified in going a step further. Under these circumstances, we should be prepared to recommend that India should join the Bimetallic

Union, if a sufficiently large number of other Governments were prepared to join. If, for instance, the United States, the Latin Union, and Germany were prepared to join, we should think the combination sufficiently strong to justify us in joining also. In respect to our adhesion to any weaker coalition than that which we have named, we must reserve our opinion until we know what is its precise composition. By joining the Bimetallic Union, we mean that our mints would be freely open to the coinage of both gold and silver, the coins to be manufactured of each metal being legal-tender money in the same ratio to each other as that adopted by the other members of the Union. The most convenient coin for India would probably be, in respect to gold, a sovereign, and in respect to silver it would be desirable to manufacture a coin representing one-fifth of a sovereign in the ratio adopted by the Union. The various subsidiary points which arise in connection with this subject need not now be discussed.

9. Your Lordship will understand, therefore, that we should prefer to maintain the attitude which has been already adopted by the Indian Government at the Conference; but we recommend adhesion to a strong Bimetallic Union as decidedly preferable to the continuation of the present order of things.

10. In our telegram of 18th May, we venture to express a hope that Her Majesty's Government would, in respect to the engagements taken by England on her own behalf, go as far as was legitimately possible, to help any international arrangement which would give stability to silver, without committing itself to the bimetallic principle; and we suggested for the special consideration of Her Majesty's Government whether it would not be possible to arrange for the Bank of England to hold the full amount of silver reserve for which provision is made in Sir Robert Peel's Act. It would be beyond our province to discuss the attitude which Her Majesty's Government may think fit to adopt in respect to engagements taken on behalf of England. Neither, in fact, are we in a position to judge whether any of the suggestions which have, from time to time, been made in this respect, and which fall short of adhesion to the Bimetallic Union, are considered feasible or not. We would, however, again earnestly express a hope that, in view of the vast importance of the subject to India, any measure tending to facilitate an international arrangement, will receive the careful consideration of Her Majesty's Government. Whether, in the event of India joining the Union, the silver $\frac{1}{5}$ ths of a sovereign, which we propose to coin, might form a part of the Bank of England reserve in silver, to which we refer in our telegram of 18th May, and whether these coins might, to a limited extent, be made legal tender in England, are matters upon which we can express no opinion. They are entirely for the consideration of Her Majesty's Government; but should these measures be adopted, they would probably tend to increase the demand for silver and to give stability to the Indian exchange.

11. His Excellency the Viceroy dissents from this despatch, and has recorded his views in a separate Minute, which we enclose. Our Honorable Colleague, Major-General Wilson, agrees with the views set forth in this Excellency the Viceroy.

XXXIX 1—A.

MINUTE BY THE RIGHT HON'BLE THE MARQUESS OF RIPON, DATED 10TH JUNE 1851.

I regret to be obliged to record my dissent from a Despatch which has been agreed to by a majority of my colleagues ; but it appears to me, and it is admitted by those who are in favour of the despatch, that no one can be a party to it who does not believe in the soundness of the theory of bimetallicism. I do not believe that theory to be sound, and, therefore, I cannot assent to the despatch.

It is true that the despatch gives but a timid and grudging approval to bimetallicism. It admits that "without a more full report of the proceedings of the Conference than is at present available to us, it is difficult for us to express any further definite opinion as to the attitude which the Indian Government should adopt ;" and it states that "it is difficult to predict with confidence what in the ultimate future would be the result if India were to join the Bimetallic Union." It strikes me that the natural conclusion from such premises would have been that we should have waited before committing ourselves on the subject of bimetallicism until we were in possession of a full report of the proceedings of the Conference and were able to gauge with some degree of confidence what would be the future result to India of the adoption of a double standard, and I am the more confirmed in my belief that a cautious and waiting attitude is that which, under present circumstances, it would be wise for us to assume, because I learn from the Secretary of State's telegram of the 25th May that the "statement of the Indian Delegates" at the Conference "was favourably received," and that "no further action on the part of the Indian Government has hitherto been suggested." This being so, a further step of such magnitude and importance as an offer to adopt bimetallicism is, in my judgment, impolitic and unnecessary.

But the majority of my colleagues have thought otherwise, and they have determined to recommend to the Secretary of State to direct the Indian Representatives at the Paris Conference to declare, in certain contingencies set out in the despatch, that India is willing to join a Bimetallic Union. To such a recommendation I cannot be a party, because it involves and is admitted to involve, an approval on the part of the Government of India of the theory of bimetallicism. Now what is the fundamental principle on which that theory is founded? It is laid down very clearly and unmistakably by M. Czernuschi in his pamphlet entitled "M. Michel Chevalier et le Bimetallicisme" the opening words of which are as follows:—"Si les grandes nations se mettent d'accord à frapper monnaie d'argent pesant $15\frac{1}{2}$ fois leur monnaie d'or la valeur relative des deux métaux sur le marché général ne pourra plus varier ; un poids d'or vaudra partout $15\frac{1}{2}$ poids d'argent. Tout le Bimetallicisme est là." This doctrine is, therefore, the foundation of bimetallicism, and it must be borne in mind that M. Czernuschi does not confine his assertion of the power of a combination of nations to regulate by law the relative value of gold and silver, so that they cannot vary, to any particular ratio which may approach to the real market ratio of the day. He prefers the ratio of $15\frac{1}{2}$ to 1, but he holds that it is in the power of a combination of Governments to fix and to maintain any ratio they please. He says (Bimetallicism at $15\frac{1}{2}$ to 1, page 36),—"In principle all ratios are equally

good ; the ratio at 10, the ratio at 15, the ratio at 20 would each work with the same efficacy and the same regularity, were any of them adopted by great States furnished with ample supplies of metallic money." It seems to me undoubtedly to follow from these statements that, if the bimetallic theory were true, it would be in the power of an union of great States to decree that an ounce of silver should be equal in value to an ounce of gold, and that thenceforth their value in the general market would at once become equal and could not change ("ne pourra plu varier") so long as the Union chose to maintain its laws unaltered. In such a doctrine I am quite unable to believe : it appears to me to be contrary to some of the most essential principles of Political Economy ; it is based, as I think, upon a misconception of the laws which regulate the value of gold and silver ; and I cannot divest myself of the conviction that a theory resting upon such a misconception must in the course of time produce those mischievous consequences which always follow, slowly it may be, but surely, upon any attempt on the part of men or of Governments to interfere with the operation of natural laws. I cannot, therefore, recommend the Secretary of State to pledge the Government of India to the adoption of a system derived from a theory so fundamentally unsound.

I desire also to point out that no information whatever has been furnished to the Government of India by the Financial Department with a view to show what would be the effect in India itself of the introduction of a legal tender gold coinage. We have no facts before us which would enable us to form any judgment as to whether the new gold coins would form an effective and useful addition to the existing circulation, or whether they would, to whatever extent they might be accepted by the public, displace the silver now in circulation. The despatch alludes to the manufacture of a new silver coin of 34 annas ; but no evidence has been laid before the Government upon which a safe opinion could be founded as to the existence of a desire on the part of the mercantile community in this country, or of the people at large, for the introduction of such a piece, or as to the effect upon the ordinary transactions of life of the issue of a coin which is not a multiple of the rupee. It appears to me that these and similar questions ought to be very carefully examined and considered before the Government of India binds itself to foreign Governments to adopt a bimetallic system of currency.

I wish, finally, to place upon record my entire agreement with the views expressed by the Secretary of State when he says in his instructions to the Indian Representatives at the Monetary Conference at Paris that he is "ready to consider any measures which might be suggested for adoption in India as being calculated to promote the re-establishment of the value of silver." I feel strongly the importance of resorting to any sound and well-considered proposals calculated to produce that effect ; I have already concurred with my colleagues in submitting such proposals to the Secretary of State ; and I shall be at all times prepared to support any further measures having that object in view, which are not inconsistent with sound economical principles, after they have received that cautious and deliberate examination to which all measures affecting the currency ought always, as it seems to me, to be submitted.

XL

DESPATCH FROM THE GOVERNMENT OF INDIA, TO THE SECRETARY OF STATE FOR INDIA, No. 45, DATED 2ND FEBRUARY 1886.

On the 12th instant, we addressed to Your Lordship the telegram,* of which a copy is appended to this despatch, on the subject of the present uncertainty regarding the future relative value of gold and silver, and we now desire to lay before Your Lordship a statement of the grounds on which we consider it desirable that an attempt should be made, at the present time, to bring about a renewal of the discussion of a question which is of vital importance to our finances, and of which, up to the present date, no satisfactory solution has been obtained.

In doing so, it will be necessary for us to refer to the facts of past years, but we shall refer to them briefly, and only at such length as is required to explain our general line of argument.

2. The immediate cause of the wide departure from the old ratio of exchange between gold and silver, which has been witnessed within the last twelve years, was the abandonment of the free coinage of silver by the Latin Union in 1874, and this date may conveniently be taken as our starting point.

The stoppage of the free coinage of silver by the Latin Union led to a rapid and heavy fall in the gold price of silver, the average rates obtained in successive years for bills drawn on India by the Secretary of State having been as follows:—

	s.	d.
1872-73	1	10 81
1873-74	1	10 35
1874-75	1	10 22
1875-76	1	9 64
1876-77	1	8 49
1877-78	1	8 79
1878-79	1	7 76
1879-80	1	7 96
1880-81	1	7 96

3. The fall in the rate of exchange between India and England imposed upon the Indian finances a heavy burden, and the financial embarrassment which it caused was aggravated by increased expenditure in connection with the Bengal Famine in 1873 and 1874 and the Madras and Bombay Famines in 1876, 1877, and 1878, as well as by heavy expenditure on military operations in Afghanistan in 1879-80 and 1880-81. Speaking generally, the period of financial pressure to which we refer may be said to have extended from 1873-74 to 1880-81, and to have involved increased taxation, large reductions in public works expenditure, and a heavy addition to the gold debt held in England. Ultimately, when war and famine ceased, the growth of revenue under the influence of good harvests and consequent general prosperity proved to be more than sufficient to cover the increased expenditure due to loss by exchange and other causes, and the financial difficulties of the Government of India had completely disappeared in 1881-82, the surplus of that year being no less than £2,582,000.

4. The satisfactory state of the finances in the beginning of 1882 enabled the Government of Lord Ripon to make large remissions of taxation.

At that time, the state of the exchange between India and England justified the adoption in the estimates of 1s. 8d. per rupee as the rate for the home remittances of the Indian Government during the coming year.

* Not printed in this volume.

Between March 1882 and March 1885, however, the decline in the exchange value of the rupee, apart from merely temporary fluctuations due to special causes, was continuous though not rapid, and in framing the estimates of 1885-86, it was not considered safe to take a higher rate than *1s. 7d.*

Notwithstanding the additional burden imposed on the Indian finances by the fall of a penny in the rupee, which occurred in the three years above referred to, the steady growth of the revenue more than covered the additional loss by exchange, and the estimates of 1885-86 showed that the actual position of the finances was thoroughly sound, and that there was a larger margin of reserve than there had been in 1882-83, the year immediately following the remissions of taxation made by Lord Ripon.

5. Although the actual position of the finances was, as we have just said, thoroughly sound in March 1885, we had at that time in prospect the possibility of largely increased expenditure which caused us serious anxiety, and to which special reference was made in the Financial Statement for 1885-86.

When we entered on the year 1885-86, we were committed to an extensive programme for the construction of Famine Railways to be carried out in the course of about five years; these Railways, however valuable for the protection of the country against the effects of famine, could not be expected for many years to yield returns adequate to cover the interest charge on the cost of construction; we had also in hand the construction of two costly Frontier Railways, namely, the Sind-Pishin, which cannot be expected to give a full direct return for the money spent on it, and the Sind-Sagar.

We were, however, able to set aside £500,000 in the estimates of 1885-86 as a charge against revenue on account of the cost of the Sind-Pishin Railway, and we had every reason to anticipate that, in the absence of special disturbing causes, our resources would be adequate to meet the demands on account of Famine Railways.

The apprehensions which we expressed in March 1885 have, unfortunately, been realised.

The year 1885-86 had not actually opened when it was found necessary to make extensive military preparations which have caused a deficit that must add in some degree to the permanent burdens of the future.

A system of Coast and Frontier defences as well as certain additions to the Frontier Railways was also found necessary during the year, and the increase to the Native and European Army, which has been sanctioned, will ultimately cost not less than £1,500,000 yearly. We cannot doubt that the total additional expenditure to be incurred for the defence of the country will, in the course of a very few years, exceed, rather than fall short of, £2,000,000 yearly.

6. An additional charge of £2,000,000, suddenly imposed, would at any time seriously embarrass the finances of India, and the increase of expenditure for the defence of the country has coincided with a heavy fall in the gold value of the rupee.

The rate of exchange, which was *1s. 7d.* when the financial arrangements for 1885-86 were made, is now below *1s. 6d.*, and the addition to our annual expenditure on this account will not be less than £1,000,000.

7. The increased expenditure on account of the Army, on account of Frontier Railways, and on account of Coast and Frontier defences, must be accepted as due to the action of a foreign power whose policy is beyond our control, and whom we can only influence indirectly, except in so far as our military preparations place us in a position to repel aggression. But

not, and cannot, admit that the fluctuations in the relative value of gold and silver are beyond control, or that it is impossible, by international agreement, to confine these fluctuations within the limits which prevailed up to 1873.

If, as we believe, it is possible to secure a stable ratio between gold and silver, a serious responsibility will rest both on the Government of India and on Her Majesty's Government, if they neglect any legitimate means to bring about this result. We need not again refer to the financial difficulties which embarrassed the Government of India between 1873 and 1881, but we desire to call Your Lordship's earnest attention to the fact that between March 1882 and the present date the fall in the exchange value of the rupee has imposed upon our finances a burden of nearly equal magnitude with that which has been thought necessary for the defence of India on account of the approach towards her frontier of one of the great military powers of Europe. It may be that the fall in exchange has reached its limit for the time, but we have, at this moment, no guarantee that the burden of £2,000,000 yearly to which we have just referred will not, either within a very few months or at some future time, more or less remote, be increased two-fold by the decision which the United States of America may pronounce on a question affecting her internal system of currency, in dealing with which she is not bound, and cannot be expected, to consult the interests of India in the slightest degree.

8. The fall in the gold value of the rupee which has occurred during the past year is mainly due to speculation regarding the repeal or modification of the Bland Act by America, and its effect is to add a crore of rupees to our burdens in the course of a single year.

Our financial position is affected from day to day by the continuous fall in the rate of exchange, the forecasts which we make of our probable expenditure are no sooner completed than they prove to be worthless, and the best-considered financial arrangements may be upset at any hour by a telegram regarding the probable action of political parties in a distant country with which we have but a very slight connection either from a political or commercial point of view.

This state of affairs would be an evil of the greatest magnitude in any country in the world; in a country such as India it is pregnant with danger. A very few months ago we submitted for Your Lordship's approval a statement of the financial measures by which we hoped to be placed in a position to meet the additional expenditure which would fall on us during the next few years. Our proposals had hardly received Your Lordship's sanction, and a Bill been introduced into the Legislative Council for the purpose of imposing a modified Income Tax, when disquieting rumours regarding the probable action of the United States of America caused a further fall in exchange, and it became evident that we could not count on obtaining in 1886-87 even an average of 1s. 6d. per rupee.

At the very moment when this Despatch was being drafted, it was reported by telegram that an American statesman and an American newspaper had expressed an opinion that the Bland Act would not be repealed, and immediately there was a perceptible rise in the rate of exchange.

It is no exaggeration to pronounce such a state of affair to be from our point of view intolerable.

9. India enjoys, at the present time, complete internal tranquillity, and, with the exception of the comparatively unimportant military expedition to Upper Burma, she is at peace with all the world; the harvest just reaped has

been a good one, and the coming harvest promises to be above the average; the opium reserve stands high, Railways bring in an increasing revenue, and though the increased military expenditure is a heavy burden, it is one which is, to some extent, within our control, and which need not be incurred to the full amount immediately. In such circumstances, we might expect to be able to look forward with confidence to the issue of the Financial Statement for 1886-87 in March next. But we cannot do so. If the Bland Act is maintained as at present, exchange may rise to 1s. 7d. per rupee; if it is modified or repealed, it may fall to 1s. 5d. or to 1s. 4d. or even lower. The difference in our expenditure between a rate of 1s. 7d. and a rate of 1s. 4d. is more than £3,000,000, and no foresight will enable us to remove this element of uncertainty from our estimates. The reductions which we hope to effect, as well as the addition to our revenue by taxation which we are about to impose, are liable to be swallowed up in an instant by the action of political parties in the United States of America with whose motives and intentions we can hardly be said to be acquainted.

The soundness of our estimates for 1886-87 depends, not on the existing state of our finances, nor on the probable revenue of the coming year, nor on expenditure which we can control, but on the balance of political parties in regard to the currency of a foreign and distant country.

10. We do not hesitate to repeat that the facts, set forth in the preceding paragraphs, are, from the point of view of Indian interests, intolerable; and the evils which we have enumerated do not exhaust the catalogue. Uncertainty regarding the future of silver discourages the investment of capital in India, and we find it impossible to borrow in silver except at an excessive cost.

On the other hand, the Frontier and Famine Railways which we propose to construct, and the Coast and Frontier defences which we have planned, are imperatively required and cannot be postponed indefinitely.

We are forced, therefore, either to increase our sterling liabilities, to which course there are so many objections, or to do without the Railways required for the commercial development of the country, and its protection against invasion and the effects of famine. The abandonment of the Frontier and Famine Railways we have in hand would be a wasteful measure, and is practically impossible. They must be completed, and even a temporary check to their progress is greatly to be deprecated. If a stable ratio between gold and silver cannot be secured, we must continue to add to the gold debt of India, though we are fully aware of the objections to borrowing largely in England in a time of peace, and view with apprehension the additional burden which will be imposed on India when borrowing in England ceases, and the remittances from India must be increased in order to pay the interest charge on an increased gold debt.

11. Nor can the difficulties which local bodies experience in borrowing in India be overlooked. The Municipalities of Bombay and Calcutta require large sums for sanitary improvements, but the high rate of interest which they must pay for silver loans operates to deter them from undertaking expensive works, and we need hardly remind Your Lordship that it has quite recently been found necessary for Government to undertake to lend the money required for the construction of Docks at Calcutta and Bombay, and that when the Port Commissioners of Calcutta attempted to raise a loan of 75 lakhs of rupees in September 1885, guaranteed by the Government of India, the total amount of tenders was only Rs40,200, and no portion of this interest was offered at par. At this moment the Port Commissioners of Calcutta are

raising a loan of 30 lakhs on which they offer $5\frac{1}{2}$ per cent. interest, although in June 1881 they raised a 4 per cent. loan at $6\frac{1}{4}$ premium.

In June 1881 the $3\frac{1}{2}$ per cent. gold debt of India stood at £102 $\frac{1}{2}$; at present it stands at £100 $\frac{3}{4}$. The higher rate of interest which local bodies have now to pay appears therefore to be mainly caused by the prevailing distrust of silver securities due to the uncertainty regarding the future of silver.

The interests of the European officers of our Government also demand recognition. The additional cost of remittances to Europe on account of their families now forms a heavy item in their expenditure, and officers whose pensions are fixed in rupees find their resources seriously crippled on retirement and return to England. The fact that the modified Income Tax which is under consideration must add to the burdens of the more poorly paid of these officers has been a matter for serious consideration in deciding whether this form of taxation should be introduced or not, and although the general considerations involved are too important to permit of our abandoning the Tax on the ground above indicated, we cannot doubt that the imposition of an Income Tax on those who have already suffered very largely by the fall in exchange will greatly add to the unpopularity of that measure and to the difficulty experienced in working it.

12. We also desire to represent for Your Lordship's special consideration that the present state of affairs would constitute a serious additional danger in the case of a war with a great power, involving heavy expenditure.

The money required for carrying on a great war could only be obtained by borrowing in Europe and in gold; the rate of exchange would be temporarily raised thereby; and it is even possible that some of the countries which now hold a large amount of silver coin rated at a value in excess of its present market price, might take the opportunity to relieve themselves of a portion of their silver currency.

The strain on the Indian finances would be excessive, and possibly more than they could bear, when we were called on to remit to England the interest on the money we had borrowed, while at the same time the rupee was subjected to a further depreciation of indefinite amount.

On this ground alone, it seems to us that sound policy requires an attempt to be made to secure a stable ratio between gold and silver.

13. In addressing Your Lordship we, naturally, base our main arguments on the difficulties which affect the Indian finances; but the dangers and difficulties arising from the present state of things are, in our opinion, by no means confined to India, or to those countries which hold a large amount of silver valued above its present market price.

We will not discuss the vexed question of the appreciation of gold: any such discussion would be out of place in the limits of a despatch; but authorities of eminence have held that any further restriction of the use of silver as a medium of exchange would be productive of grave evils, and we would draw Your Lordship's attention to the remarks made by the English Commissioners at the International Monetary Conference of 1878, and which they thought of sufficient importance to repeat in their Report, dated 27th November 1878, to the Lords Commissioners of Her Majesty's Treasury—

“While putting aside entirely the question of the double standard, there was another question which appeared to be practical and useful to put, *viz.*, assuming that the general double standard proposed by the United States could not be adopted, what would be the future of silver; towards what aim ought the various States to direct their efforts? This aim we considered to be to keep silver in the position which it occupies at present as the

partner or natural ally of gold in all parts of the world where it might be possible to do so. We considered that a campaign undertaken against silver would be exceedingly dangerous, even for the countries who have given a position as legal tender only to gold."

We do not desire to do more than merely allude to this aspect of the question, and shall content ourselves with remarking that a heavy fall in gold prices has in point of fact coincided with the partial demonetization of silver, and that further progress in the same direction could not be viewed otherwise than with apprehension by the nations concerned.

Attached to this despatch will be found a statement showing the prices of wheat and of cotton in England and in India since 1870; the English prices are in gold, the Indian prices in silver, and it will be seen that there has been a much heavier fall in English than in Indian prices.

We do not believe that the entire fall in the English prices of either wheat or cotton is due to the fall in the rate of exchange, but we see no reason to doubt that the rate of exchange has had a material influence in bringing about this fall. As an illustration of the far-reaching effects of any considerable change in the relative value of gold and silver and of the economic disturbance which it causes, we would call Your Lordship's special attention to the fact that the Indian cultivator of wheat and cotton appears to have actually gained, while the English and American producer of these commodities has suffered, by the fall in the rate of exchange.

14. The discussions, which have taken place since Germany began the demonetization of silver in 1871, have shown that the complete demonetization of either gold or silver is an impossibility, and that any further progress in substituting gold for silver would be productive of widespread evils which would increase in magnitude the further the process was carried. Moreover, the interests of the whole world are now so closely bound together by commercial relations, that even a country which looked exclusively to its own interests could not afford in the present day to preserve a position of absolute isolation. This argument is of special force when the two countries are so intimately connected as are India and England, and we would earnestly press upon Your Lordship the importance of losing no opportunity that may offer of promoting remedial measures for the evils from which we and, in our opinion, other countries are now suffering.

Although we have for a series of years escaped the evils of famine, our financial position is no better than it was in 1874-75. We are again suffering from a fall in the gold value of the rupee, and even if we tide over our present difficulties, we have no reason to suppose that similar difficulties will not recur again, and possibly in an aggravated form, and at a time when we shall be in a worse position to encounter them. The words used by Lord Lytton's Government in a despatch, dated 9th November 1878, might be applied, almost literally, to the circumstances of the present day :—

"At the present time, when political events may throw upon India new and unusual magnitude, the position of our Government in relation to this question is of a character of extreme gravity. Whether, if such demands upon us arise, the Government will have to resort to increased taxation to provide additional resources for the year, or to loans to meet sudden or unusual charges, or, as may be more probable, a combination of the two, the anxiety that will attend our Financial Administration is great; and if the holders of silver should, under any combination of circumstances, bring any considerable quantity on the market, as is at all events possible, the consequences for India might be financially disastrous. How a sudden call to supply by taxation or more to provide for further loss by the sale of one or two millions for the year could be met, we are at a loss to know; yet such a contingency might arise, and it is so improbable as to remove them from a serious claim on our attention. The prospects of a

loan in such a case would not be much more satisfactory. Any temporary relief obtained by borrowing in England would be more than compensated by the increased burdens created in the future, and the necessary tendency of things would be to go from bad to worse."

The question of the future relations of gold and silver has been allowed to drift for fully twelve years, and our difficulties are as great as were those of our predecessors in 1874 and 1878; if remedial measures are not adopted in time, our successors will employ the same language that Lord Lytton's Government used in 1878, and that we find it necessary to repeat in the present day, and their words will come with all the greater weight because they will be used in the presence of actual danger to the empire.

15. The difficulties and uncertainties at all times inseparable from Indian finance are such that no cause of apprehension which can be removed should be allowed to remain a day longer than can be helped. No efforts which the Government of India or Your Lordship can make will affect the vicissitudes of good or bad seasons, and no foresight or sagacity will render us absolutely secure from war, or remove the uncertainties regarding the opium revenue. But the establishment of a fixed ratio between gold and silver is not beyond the possibility of human control, and the ordinary prudence requires that steps should be taken to remove every preventible cause of future financial embarrassment. Your Lordship will no doubt be guided by circumstances in deciding on the time and manner which may appear most opportune for action, but, looking to the vast importance which the question possesses for the Government and people of India, we think Your Lordship would be justified in taking the initiative in promoting a conference for the consideration of remedial measures.

The International Monetary Conference, which met at Paris in 1881, was adjourned to 1882, in order to give an opportunity for diplomatic negotiations between the States interested in the monetary question. Subsequently, as we were informed in Lord Hartington's Despatch No. 137, dated 4th May 1882, the Conference was postponed until a still later date. Since Lord Hartington's Despatch of 4th May 1882, we have not received any further communication on the subject, and we can only infer that it was found impossible to frame positive proposals, which would be generally acceptable to the States concerned.

Recent events have, however, brought into greater prominence the evils with which the world is threatened by the state of the currency in the United States of America and in the countries comprised in the Latin Union, and the present time would appear to be a favourable one for re-opening the whole question. Even if Your Lordship see no prospect of immediate success, we should still recommend that the question be raised again. The evils connected with the present state of affairs are so serious that the adoption sooner or later by international agreement of measures which will bring about a stable ratio between gold and silver appears to us to be only a question of time. A wide and general discussion of the question is essential to the formation of a body of public opinion sufficient to enforce a final settlement, and the sooner a final settlement is taken in hand, the easier it will be to carry out, and the more satisfactory to all concerned will be the result.

XLI.

DESPATCH FROM THE SECRETARY OF STATE FOR INDIA, TO THE GOVERNMENT OF INDIA, No. 194, DATED 8TH JULY 1886.

In continuation of Lord Randolph Churchill's Despatch of the 28th of January, No. 20, * I transmit, for the information of Your Excellency, a copy of a further correspondence † which has passed with the Treasury on the subject of a settlement of the exchange question being brought about by International Agreement.

† To the Treasury, 17th March 1886.

From ditto, 31st May 1886.

To ditto, 7th July 1886.

2. Your Excellency will perceive that it would have been useless to press on the Treasury the suggestion made in your telegram of the 29th of May.*

From J. A. GODLEY, Esq., to the Secretary, Treasury, dated 17th March 1886.

In continuation of the letter from this Office of the 26th of January last, relative to the fall in the exchange value of the rupee consequent on the depreciation of silver, I am directed by the Secretary of State for India in Council to forward a copy of a letter ‡ which has now been received from the Government of India on the subject.

‡ Dated 2nd February 1886, No. 45 (Financial), and enclosures.

From HENRY H. FOWLER, Esq., to the Under Secretary of State for India, No. 1728—4707, dated 31st May 1886.

The Lords Commissioners of Her Majesty's Treasury have had before them your letter of the 26th January last, in which Lord Randolph Churchill in Council called the attention of their Lordships to the very serious difficulties which are being caused in the financial administration of India through the continued fall in the price of silver in relation to gold, and the uncertainty which exists as to the future exchange value of the rupee.

2. I am to observe, in the first place, that this letter appears to be based on a brief telegram from the Government of India, dated the 12th January,* a copy of which accompanied your letter of the 17th March.*

3. In that telegram the Government of India adverts to the well-known fact that the Indian Exchequer suffers from a depression in the value of silver; but, as regards the remedy to be applied to that evil, they simply state that "the interests of British India imperatively demand that a determined effort should be made to settle the silver question by international agreement." They insist upon the necessity of "a solution of the silver question," and "earnestly commend the question to the early consideration of Her Majesty's Government." But they offer no definite indication of the nature of the international agreement which should supply the solution of the silver question.

4. The letter addressed by Lord Randolph Churchill to this Department on the 26th January indicates the mischiefs arising from the depression and fluctuation in value of silver upon the Indian revenue; it points out the difficulties in the way of additional taxation, and the obstacles to the negotiation of necessary loans, due to the fall in silver. These disadvantageous circumstances are, and have long been, well known to every one who is conversant with Indian finance. But Lord Randolph Churchill's letter seems to supply no more definite suggestion as to the desired or possible remedy

than is to be found in the telegram of the Indian Government. He states that "the Secretary of State for India in Council cannot avoid the conclusion that it is imperatively necessary to make every effort to find some remedial measures which will release the Government of India from the position in which it is now placed." What those remedial measures ought to be is nowhere stated either by the Indian Government or by the Secretary of State in Council. Lord Randolph Churchill most earnestly presses upon my Lords the importance of making every endeavour that is possible to bring about by international agreement some settlement of the question how the free coinage of silver may be revived, and the comparative stability of the relative value of gold and silver may be insured. What my Lords would have been glad to have learned would have been the definite views of the Government of India and the Secretary of State as to the particular means by which these objects were to be effected.

5. Since Lord Randolph Churchill's letter of the 26th January, a Despatch from the Government of India, dated Calcutta, 2nd February, was received and reached this Department on the 17th March. That Despatch sets out the grounds upon which the telegram of the 12th January was founded. It adverts to the fall in the value of silver, to the loss upon exchanges, to the great increase of Indian expenditure, to the disadvantages both to the Public Exchequer and to the private interests of the European officers of the Indian Government arising from the additional cost of remittance, and also to the fact that corresponding advantages are "actually gained by the Indian cultivator of wheat and cotton," a circumstance which can hardly be regarded as injurious to the Native community of India. This state of things is declared to be intolerable.

6. As a result of this review of the inconveniences caused by the depression in the value of silver, the Government of India express their opinion (paragraph 15) that, though many elements in human affairs may be uncertain, and "no efforts which the Government of India or the Secretary of State can make will affect the vicissitudes of good or bad seasons, and no foresight or sagacity will render us absolutely secure from war or remove the uncertainties regarding the opium revenue," yet there remains one thing which is "not beyond the possibility of human control," and that is, "the establishment of a fixed ratio between gold and silver." The proposition thus stated as an undoubted axiom is, however, one of the most disputable and disputed points in economic science. My Lords may, in passing, compare with this statement the declaration recorded by Mr. Goschen, Mr. Gibbs, and Sir Thomas Seccombe, as the representatives of Her Majesty's Government at the International Monetary Conference of 1878, that "the establishment of a fixed ratio between gold and silver was utterly impracticable." The Indian Government further express their belief (paragraph 7) that it is possible to "secure a stable ratio between gold and silver," and that "a serious responsibility will rest both on the Government of India and on Her Majesty's Government if they neglect any legitimate means to bring about this result." It would, however, have been more satisfactory if the Indian Government had undertaken to explain the grounds of their confidence that a stable ratio between gold and silver can be established, and the methods by which this is to be accomplished.

7. It is the more remarkable, that the Government of India and the Secretary of State should have confined their observations to these very general propositions, considering that all the facts, so far as they are material,

have been previously discussed between the India Office and this Department at a time when the Indian Government submitted definite proposals for the remedy of the evils complained of. Those proposals were then carefully examined, and pronounced to be inadmissible. There is little that is new in the present state of the facts or which could affect the principles on which the discussion was then based. The loss to the Indian Exchequer at that time, though not so great as at the present time, amounted to three millions and a quarter, and the arguments then alleged against schemes with a view to alterations in the currency remain in full force. In renewing the subject it might have been desired that the Indian Government should have given some reply to the reasons which have hitherto prevailed against their proposals, and had shown that they had some scheme now in view which was not obnoxious to similar objections.

8. In December 1878 Lord Cranbrook, then Secretary of State for India, forwarded to the then Chancellor of the Exchequer (Sir Stafford Northcote), without any expression of opinion, two Despatches from the Government of India, containing certain proposed remedies for the evils arising out of the depression in the value of silver, which were then in full force. In the only one of those Despatches to which reference need here be made, after unfavourable reference to previous suggestions, (1) that a gold standard and gold currency should be introduced into India, and (2) that the weight of silver in the rupee should be increased, it was proposed to limit the free coinage of silver at the Indian mints. The intention of this change was to introduce into India a gold standard while retaining its native silver currency, the ratio between the currency unit (the rupee) and the standard (the sovereign) being fixed arbitrarily by the Government. The means for attaining this end are worked out in the Despatch with great elaboration of detail.

9. This Despatch and its proposals were submitted by Lord Cranbrook, on behalf of the Indian Government, and Sir Stafford Northcote, as Chancellor of the Exchequer, to a committee consisting of Sir Louis Mallet, Mr. Edward Stanhope, M.P., Sir Thomas Seecombe, Mr. (now Sir Thomas) Farrer, Mr. (now Sir Reginald) Welby, Mr. Giffen, and Mr. Arthur Palfour, M.P. These gentlemen reported, on the 30th April 1879, that, "having examined the proposals contained in the Despatch, they were unanimously of opinion that they could not recommend them for the sanction of Her Majesty's Government."

10. Subsequently, on the 24th November 1879, the Treasury replied in detail to the proposals of the Indian Government. In the first part of that letter, which summarizes the case as stated in the Despatch, I am to call the particular attention of the Secretary of State to the following passages, which seem to apply with equal force to the present situation :—

"My Lords need not point out that a change of the Currency Law is one of the most difficult tasks which a Government can undertake, and that it is most unadvisable to undertake it hastily and under the influence of the pressure of the moment, or of an apprehension of uncertain consequences, upon a subject so complicated in itself, and so important to every individual of the community, in its bearing upon the transactions and obligations of daily life.

"It is not proved that increase or readjustment of taxation must necessarily be the consequence of matters remaining as they are, for nothing is said about reduction of expenditure, and equilibrium between income and expenditure may be regained by reduction of expenditure as well as by increase of taxation. Further, the cost of increased expenditure may be met, or at least reduced, by a careful revision of establishments.

"My Lords must point out that there is little or nothing in the Despatch to show the precise nature of the injury which the trade of India, in the opinion of the Government of India, has sustained through the fall of silver."

"It has not yet been established whether the variations in the relations between gold and silver may not have been caused by appreciation of the former metal as well as by depreciation of the latter, or by a combination of both. If appreciation of gold enter into the calculation, the effect on the loss by exchange must evidently differ from that caused by depreciation of silver alone.

"Nor can my Lords admit that the responsibility for doing nothing is as great as that for doing something. The present evils are not the results of any Governmental action, while the responsibility of the proposed scheme would rest wholly with the Government. It is better to sit still than to have recourse, under the influence of panic, to crude legislation, the result of which cannot be foretold, and the effect of which cannot be measured.

"A perusal of the Despatch leads to the conclusion that the Government of India are especially anxious to put an end to the competition of silver against their own bills as a means of remittance to India. But my Lords must ask whether this would be more than a transfer of their own burthen to other shoulders; if so, who would eventually bear the loss, and what would be the effect on the credit of the Government and on the commerce of India?"

The Treasury then proceed to point out at length the objections which they entertain to the then proposals of the Indian Government, and sum up their effects as follows:—

"If the present state of exchange be due to the depreciation of silver, the Government scheme, if it succeeds, may relieve—

- "(1) The Indian Government from the inconvenience of a nominal readjustment of taxation, in order to meet the loss by exchange on the home remittances.
- "(2) Civil servants and other Englishmen who are serving and working in India, and who desire to remit money to England.
- "(3) Englishmen who have money placed or invested in India which they wish to remit to England.

"But this relief will be given at the expense of the Indian taxpayer, and with the effect of increasing every debt or fixed payment in India, including debts due by ryots to money-lenders; while its effect will be materially qualified, so far as the Government are concerned, by the enhancement of the public obligations in India, which have been contracted on a silver basis."

The Treasury find no reason stated in the Despatch of the Government of India in the present year which induces them to dissent from the conclusions thus set forth on the authority of Sir Stafford Northcote as to the results of any attempt artificially to enhance the gold price of silver.

11. Whilst it is admitted that some benefit might be derived by the European officers of our Government from the proposed measures, it is shown how injurious would be their effect upon the Indian taxpayer. Since that time, the great stimulus which the fall in the value of silver is believed to have given to the export trade of Hindustan, and the great addition which has accrued in consequence to its commercial wealth and the industry of its people, reinforce the warning then given against rashly meddling with a condition of things which may well have brought to the people of India more of advantage than of loss. It is impossible to regard this question exclusively from the point of view either of the Indian Exchequer or of the Anglo-Indian official without a corresponding regard to the general effect of the fall in the gold price of silver upon the trade and prosperity of the great mass of the population. It may be that the loss sustained by the revenue on the exchange has been far more than counterbalanced by the augmented wealth derived from the Indian export trade, which is known to have advanced in recent years "by leaps and bounds." This view of the matter is well given by Mr. D. Barbour, Financial Secretary to the Government of India, at pages 149 and 153 of his recent work on "The Theory of Bimetallism," where he sums up the question of gain or loss to India from the recent changes in the ratio between the precious metals:—

"The progress of the Indian Revenue shows that the general prosperity of the country, which is largely due to the stability of price maintained by the partial demonetization of

silver, very materially counterbalances, even from a purely financial point of view, the increasing burthen thrown on the Government of India by the fall in the rate of exchange.

"India has suffered from the partial demonetization of silver, because her obligations contracted in gold now impose a heavier burden on her than they otherwise would have done, because capitalists whose resources are in gold hesitate to invest money in a country where the standard is silver, and because an additional uncertainty has been introduced into all commercial transactions between silver and gold-using countries. On the other hand, the partial demonetization of silver has prevented a fall of prices in India, and has thereby conferred a boon of immense value on the country. Grievous as is the burden which the so-called loss by exchange imposes on Indian finance, and difficult as it is for the Indian Government to recruit its resources by additional taxation, I should, if I were forced to strike a balance between the gain and the loss, hesitate to say that on the whole India has, up to the present date, been a loser."

(See also the facts and figures set forth in the same work at pages 145—150.)

12. The Despatch of the 2nd February, from the Government of India, seems, so far as it suggests any practical course of action, to point especially to an International Conference on the silver question; and it is therefore necessary to consider what has already been done in that direction. In 1878 an International Conference was held at Paris, at which Her Majesty's Government was represented by Mr. Goschen, Mr. H. H. Gibbs, and Sir Thomas Seacombe, Financial Secretary at the India Office. At that Conference the United States Commissioners put forward the following propositions:—

"It is the opinion of this assembly that it is not to be desired that silver should be excluded from free coinage in Europe and the United States of America. On the contrary, the assembly believes that it is desirable that the unrestricted coinage of silver and its use as money of unlimited legal tender should be retained where they exist and, as far as practicable, restored where they have ceased to exist.

"2. The use of both gold and silver as unlimited legal tender money may be safely adopted—

"(1) By equalizing them at a ratio to be fixed by international agreement.

"(2) By granting to each metal, at the relation fixed, equal terms of coinage making no discrimination between them."

In answer to these propositions the following Resolutions were proposed by the French and English Delegates, and carried by a large majority:—

"1. That it is necessary to maintain in the world the monetary functions of silver as well as those of gold, but that the selection for use of one or the other of these two metals, or of both simultaneously, should be governed by the special situation of each State or group of States.

"2. That the question of the restriction of the mintage of silver should equally be left to the discretion of each State or group of States, according to the particular position in which they may be placed; and the more in that the disturbance which in recent years has been produced in the silver market has variously affected the monetary situation of the several countries.

"3. That the differences of opinion which have appeared, and the fact that even the States in which the double standard exists, find it impossible to enter into any engagement with regard to the unlimited coinage of silver, preclude the discussion of the question of establishing an international relation of value between the two metals."

To this Mr. Goschen added a declaration that he and his colleagues, "while not in favour of the universal adoption of a single gold standard, considered that the establishment of a fixed ratio of gold and silver was utterly impracticable, and that they were opposed to a system of currency based on a double standard." (See Report of Mr. Fremantle, House of Commons, Paper No. 221 of 1882.)

13. In 1881 Her Majesty's Government consented to take part in another Conference also at Paris, the correspondence connected with which is contained in the House of Commons Paper 449 of 1881. The views of the Treasury at

that time are stated in letters of the 11th March (page 3) and 21st April (page 11), of which the following passages give the substance :—

“ My Lords must point out that changes in monetary policy, affecting, as they do, the daily transactions of every class of the community, are of so grave a character, that they ought not to be discussed unless there be reasonable ground for anticipating a practical result.

“ The United Kingdom has, since 1816, confined itself to a single standard of value—gold. The policy of a single standard has been accepted by Governments of all parties and by the people. An entire change in public opinion must take place before a change of monetary policy in this country could be seriously contemplated. Such change of opinion has, so far as my Lords can judge, not taken place, and Her Majesty's Government, therefore, could not undertake to assent, on behalf of the United Kingdom, to the principle of a double standard.”

Instructions were accordingly given to the British Delegate to inform the Conference that “ Her Majesty's Government cannot undertake to propose the adoption of the principle of a double standard of value in the United Kingdom.” In a telegram from the Viceroy of the 18th May in that year (page 20, *idem*), the Government of India apparently disavow any bimetallic proposals, and confine themselves to suggesting certain arrangements which might be adopted for the purpose of giving stability to the price of silver. On the 10th June the Government of India wrote a Despatch containing certain suggestions on the subject, the most important of which was that India might properly join the proposed bimetallic Union if a sufficiently large number of other States did the same. From this, however, the Viceroy (Lord Ripon) and General Wilson dissented, as implying an acceptance of the bimetallic theory (*idem*, pages 33 and foll.). On the 8th September, Lord Hartington, then Secretary of State for India, advertin^g to this Despatch, gave no countenance to the bimetallic view, and confined himself to supporting the conditions as agreed to by the English Delegates at the Conference (*idem*, page 39), of which the only one for which India was responsible was the undertaking to coin silver freely in that country for a term of years, and to continue it as the legal tender to an unlimited extent if such an offer would facilitate the union of other nations in an agreement to allow free coinage of silver. The results of the Conference are summed up in Mr. Fremantle's Report of the 2nd December 1881 (House of Commons Paper 221 of 1882), in which the views of Her Majesty's Government are clearly stated (page 7) :—

“ It has been the policy of this country to emancipate commercial transactions as far as possible from legal control, and to impose no unnecessary restrictions upon the interchange of commodities. To fix the relative value of gold and silver by law would be to enter upon a course directly at variance with this principle, and would be regarded as an arbitrary interference with a natural law, not justified by any pressing necessity. England would not herself take the initiative in making changes which would have the effect of disturbing a monetary system under which she has enjoyed much prosperity, and which has generally commended itself to public men of all parties. Before being called on to abandon her present monetary policy, she should be put in possession of the views deliberately adopted by a consensus of important States, and should be able to consider them in the light of her own experience and interests. To such a statement of views Her Majesty's Government have more than once expressed their willingness to give respectful attention.”

14. Since 1881 nothing seems to have occurred which should alter the views of the English Government or the Treasury, as expressed at various periods, on this question. My Lords are most anxious to consult the interests of India in this matter, and to do all in their power to promote them. But they must, first of all, be satisfied what those interests really are. It has been shown above that the arguments do not lie all on one side; that though the loss to the Indian revenue from the fall in the value of silver may be

considerable, and that much inconvenience may be caused to persons, like the English officials in India, who have to remit money to England, yet, on the other hand, in the opinion of persons best calculated to form a judgment on the subject, great countervailing advantages have accrued to the trade and the people of India. My Lords would require much fuller information from this point of view than is to be found in the Despatches of the Indian Government before they could arrive at the conclusion, that upon a balance the alteration in the gold price of silver has been a disadvantage to the Indian community, or that an attempt to interfere with the natural operation of economic laws would result in solid benefit to the vast population for whose welfare we are responsible. On the contrary, it is possible that an attempt to raise the price of silver might produce very disastrous effects upon the new developments of the export trade of India.

15. There are other causes which have much more obviously and certainly conduced to the financial difficulties of India than the fall in the price of silver, which, indeed, as Mr. Barbour has pointed out, has been accompanied by, if it has not caused, a remarkable growth of the trade and the revenue of India in the most recent years. As has been already shown, the growth of revenue, taking into account the remissions of taxation within the same period, has been very large, but the principal element which has determined the unfavourable condition of Indian finance, referred to in the Despatch of the Government of India, is the alarming growth of the expenditure. The observation of the Treasury in 1879, "that nothing is said about reduction of expenditure," seems to apply still more strongly to the existing situation, and it may be safely concluded that the control of its expenditure is far more within the reach of a Government than is the regulation of the market value of the precious metals.

16. It is obvious that Her Majesty's Government could take no measures for summoning or co-operating in a new Monetary Conference until they had previously determined what policy they should initiate or could assent to. The whole subject is understood to be under the consideration of the Royal Commission on the Depression of Trade; but my Lords can find nothing in the correspondence and information before them which should induce them to depart from the instructions given to the representatives of this country at the Conference of 1881.

From J. A. GODLEY, Esq., Under Secretary of State for India, to the Secretary, Treasury, dated 7th July 1886.

I am directed by the Secretary of State for India in Council to acknowledge the receipt of your letter of the 31st of May, on the subject of the urgent request of the Government of India that a determined effort should be made to settle the silver question by international agreement.

You observe that since 1881 nothing seems to have occurred which should alter the views of the English Government or the Treasury, as expressed at various periods, on this question; that their Lordships are not convinced that upon a balance the alteration in the gold price of silver has been a disadvantage to the Indian community; on the contrary, they think it possible that an attempt to raise the price of silver might produce very disastrous effects upon the new developments of the export trade of India. They are further of opinion that the principal element which has determined the unfavourable condition of Indian finance is the alarming growth of the expenditure; and they

add that it is obvious that Her Majesty's Government could take no measures for summoning or co-operating in a new Monetary Conference until they had previously determined what policy they should initiate or could assent to; they are unable, however, to find anything in the correspondence and information before them which should induce them to depart from the instructions given to the representative of this country at the Conference of 1881.

The Secretary of State in Council must not be understood as admitting that the application made in my letter of the 26th of January is accurately described as an "attempt to raise the price of silver," or that "the principal element which has determined the unfavourable condition of Indian finance is the alarming growth of the expenditure," other than the extra expenditure resulting from the fall of exchange.

His Lordship, however, considers that no good result is to be anticipated from a discussion of this subject between two Departments of Her Majesty's Government; and, as you state that the whole matter is understood to be under the notice of the Royal Commission on the Depression of Trade, he trusts that another opportunity will be afforded, at an early date, for the consideration of this important question, in which the Government of India have so great an interest.

XLII.

DESPATCH FROM THE GOVERNMENT OF INDIA, TO THE SECRETARY OF STATE FOR INDIA, NO. 277, DATED 4TH SEPTEMBER 1886.

We have the honour to acknowledge receipt of Lord Kimberley's Financial Despatch No. 194, dated 8th July 1886, forwarding a copy of correspondence with the Treasury on the subject of the settlement of the exchange question by international agreement.

2. In our Despatch No. 45, dated 2nd February 1886, we pressed upon Lord Randolph Churchill the extreme importance in the interests of our Government of settling the silver question by international agreement, and we observe with much satisfaction that in Mr. Godley's letter of 26th January 1886, addressed to the Lords Commissioners of Her Majesty's Treasury, the Secretary of State for India in Council stated that he could not avoid "the conclusion that it is imperatively necessary to make every effort to find some remedial measure which will relieve the Government of India from the position in which it is now placed," and that "the comparative stability of the relative value of gold and silver" was "essential for the regular course of trade" and "of vital importance to India." The Lords Commissioners of Her Majesty's Treasury replied in Mr. Fowler's letter of 31st May 1886, to our proposals and to the communications made by the Secretary of State for India in Council, that they could take no measures for summoning, or co-operating in, a new Monetary Conference until they had previously determined what policy they should initiate, or could assent to; that the whole question was understood to be under the consideration of the Royal Commission on the Depression of Trade; and that there was nothing in the correspondence and information before the Lords Commissioners which should induce them to depart from the instructions given to the Representative of England at the Monetary Conference of 1881. The instructions given to the English Delegate at that Conference were to the effect that "he would assist at the meetings of the Conference solely in order to be a medium of communication, and to afford information which the Conference may require, but with no power of voting."

3. We observe that Your Lordship's predecessor did not propose to continue at present the discussion of this important matter with the Treasury. We have no wish to question the expediency of this decision; but, in view of the probability of the subject being again taken into consideration, in compliance with the recommendations of the Royal Commission now inquiring into the causes of the depression in trade, we think it of importance to acquaint Your Lordship with our views on the main points raised in the letter from the Lords Commissioners of Her Majesty's Treasury, dated 31st May 1886. We cannot, meanwhile, in view of the experience gained since 1881, and of the grave importance of the question, avoid expressing disappointment at learning that Her Majesty's Government proposes to adhere to a purely passive attitude, and that the Government of India is to meet its pressing financial difficulties unaided, or with such assistance as it may derive from the action of foreign nations. We trust that this decision is not irrevocable, and that the result of the deliberations of the Royal Commission, which we hope will be appointed for the special purpose of examining the silver question, may be to disclose some method of relief for our finances which will, at the same time, be acceptable to Her Majesty's Government.

4. We understand the grounds on which the Lords Commissioners of Her Majesty's Treasury decline to take any steps at present towards a settlement of the silver question by international agreement to be as follows :—

Firstly, that it is doubtful whether it is possible to secure stability of value between gold and silver.

Secondly, that it is not proved that any measures which would raise the gold value of silver would on the whole be a gain to India.

Thirdly, that the arguments employed against the proposals made by the Government of India in 1878 have never been answered, and retain their full force.

Fourthly, that the difficulty can be met in great measure by reduction of expenditure.

Fifthly, that the Government of India has not distinctly stated the nature of the remedy which it proposes.

We propose to deal with these arguments in the order in which we have stated them.

Possibility of maintaining stability of relative value of gold and silver.

5. The Lords Commissioners remark that the question of the possibility of maintaining a fixed ratio between gold and silver is "one of the most disputable and disputed points in economic science," and they quote the declaration recorded by the representatives of Her Majesty's Government at the International Monetary Conference of 1878 that "the establishment of a fixed ratio between gold and silver is utterly impracticable."

We desire to observe that the establishment of a fixed ratio between gold and silver may be held, as in the words above used, to be utterly impracticable, either because it is theoretically impossible to devise measures which would have the desired effect, or because it is practically impossible to secure the adoption of these measures as the result of international agreement. If it is meant that it is theoretically impossible to secure stability of value between gold and silver, we cannot do more, within the limits of a despatch, than refer to the facts of the first seventy years of the present century, and to the numerous treaties in which the theoretical possibility of maintaining a fixed ratio has been demonstrated. But if, on the other hand, the Lords Commissioners refer to the practical difficulty of securing an international agreement on a sufficiently wide basis, we beg that reference be made to the proceedings of the Monetary Conference of 1881. The Conference of 1881 was held at the instance of France and the United States of America, and the following are the words of the Note forwarded by the United States Minister in London to Her Majesty's Secretary of State for Foreign Affairs :—

"The Government of the Republic of France and the Government of the United States having exchanged views upon the subject of a Conference between the Powers principally interested in the question of establishing internationally the use of gold and silver as bimetallic money, and securing fixity of relative value between these metals, and finding themselves in accord as to the usefulness and importance of such a Conference, and as to the time and place at which the same should be held, have the honour now to invite the Government of Great Britain to take part in a Conference, by such delegates as each Government may appoint, to be held at Paris on Tuesday, the 19th day of April next, to consider and adopt for presentation to the Governments so represented, for their acceptance, a plan and system for the establishment by international convention of the use of silver and gold as bimetallic money at a fixed relative value between these two metals."

France and the United States are the two nations whose influence, with the exception of that of England and India, would be the most powerful in maintaining the stability of the relative value of gold and silver; and the words of the note above quoted show in unmistakable terms that, whatever views may be elsewhere entertained, the Governments of those countries considered the establishment of a fixed ratio both practicable and expedient.

6. At the Conference the attitude of the Delegates, excluding those of France and the United States, was generally one of reserve, each country desiring to retain for itself complete liberty of action; but the Delegates of Holland and of Italy distinctly avowed their desire to see the free coinage of both gold and silver at a fixed ratio. M. Pierson, Delegate of Holland, observed: "The adoption of the bimetallic system is the only means of escaping from the annoying situation in which we are placed. That at least is the conclusion we have arrived at in Holland." M. Seismit-Doda, Delegate of Italy, observed: "The Italian delegates associated themselves fully with the declarations presented by Messrs. Denormandie and Cernuschi, as well as Sir Louis Mallet, on the subject of the necessity of raising the value of silver, and of establishing a fixed ratio between the two metals." The Delegate of Austro-Hungary, in view of the fact that the currency of that country consisted of inconvertible paper, was unwilling to adopt an attitude other than that of reserve; but nevertheless Count Kufstein declared: "Still they felt no hesitation in saying that as in the Conference of 1878, so for the future, their sympathy was with any measure which might be adopted with the aim of improving or re-establishing as much as possible the position of silver. They therefore hoped that the Conference would not separate without having adopted some remedy to obviate the inconveniences of the present monetary situation, which they believed in many ways to be a grave one."

7. As the attitude of Germany at the Conference is of special importance, we quote at some length the words of Baron Thielmann, the Delegate of that country: "We acknowledge, without reserve, that the rehabilitation of silver is desirable, and that it could be attained by the re-establishment of the full coinage of silver in a certain number of the most populous States represented at this Conference, which for this purpose would take as a basis a fixed proportion between the value of gold and that of silver. Nevertheless, Germany, whose monetary reform is already so far advanced, and whose general monetary situation does not seem to invite a change of system of such vast importance, does not find itself able to concede, as far as it is itself concerned, the full coinage of silver. Its delegates cannot therefore agree to such a proposal. The German Government is, on the other hand, entirely disposed to help as far as possible the efforts of the other powers which might be willing to unite, with a view to the rehabilitation of silver by means of a full coinage of this metal. To attain this end, and to guarantee these powers against the influx of German silver which they seem to dread, the German Government will impose some restrictions on itself." When Baron Thielmann was asked if the attitude of England had been the cause of the reserve shown by Germany, he replied "that the attitude of England had had some effect on the resolution of the German Government," as it was "necessary for the German Government to pursue a monetary system similar to that of England." It is, therefore, reason to believe that if Her Majesty's Government had shown a stronger desire to further the objects of the Conference, Germany would have been prepared to take steps in the same direction.

8. In view of the opinions expressed by France, the United States of America, Austro-Hungary, Italy, and Holland in favour of the establishment of a fixed ratio between gold and silver, and of the undoubtedly favourable attitude of Germany, and the evident inclination of that power to follow the lead of England, it appears to us reasonable to conclude that it was within the power of Her Majesty's Government at the Conference of 1881 to have secured the adoption of a fixed ratio; and as the evils due to the non-existence of a fixed ratio have manifested themselves in an aggravated degree since 1881, we may reasonably conclude that it is still within the power of Her Majesty's Government to secure this result, if willing to exert its influence for that purpose. Looking to the facts we have just stated, we are unable to admit the contention that the establishment of a fixed ratio is impossible because international agreement cannot be secured. It appears to us that if Her Majesty's Government abandoned the attitude of absolute reserve which they have so long maintained to the injury, as we believe, alike of England and India, there would remain no obstacle to the establishment of international agreement which could not be surmounted. Even allowing for the sake of argument that it should prove impossible to secure the establishment of a fixed ratio on a sufficiently wide basis to permanently maintain that ratio, we see no reason to doubt that the active and sympathetic intervention of Her Majesty's Government would secure the adoption of measures which would tend in that direction, and which would at any rate have the effect of mitigating existing evils, and of removing grave grounds of apprehension as regards the future.

9. In connection with the question of the possibility of maintaining a fixed ratio between the two metals, we further desire to observe that, in quoting the opinion of Mr. Goschen, Mr. Gibbs, and Sir Thomas Seccombe as recorded in 1878, the Lords Commissioners of Her Majesty's Treasury appear to have attached little weight to the extremely important facts that since the expression of opinion by the representatives of England in 1878, the evils of the unsettled state of the silver question have become greatly aggravated, that the question has been far more thoroughly discussed, and that both the origin of the disease and the nature of the remedy are better understood. It seems to us to be at least possible that if an opinion were obtained in 1886, it might differ from that given in 1878; and we know that in the case of one of the gentlemen cited, the opinion expressed in 1878 has been entirely repudiated.

10. We have no opportunity of ascertaining the views on this question which Sir Thomas Seccombe may now hold, nor are we aware whether Mr. Goschen considers the impracticability of establishing a fixed ratio as great as it appeared to be in 1878; but we observe that in 1878 Mr. Goschen concurred with the other representatives of England in holding "that a campaign undertaken against silver would be exceedingly dangerous, even for the countries which have given a position as legal tender only to gold." Again, in a speech "on the condition and prospects of trade" delivered by Mr. Goschen at Manchester on 23rd June 1885, we find him reported to have expressed himself as follows:—

"Now let me take the silver question. It is impossible to embark upon that or upon the appreciation of gold in a satisfactory manner in a few sentences, because it would take a whole speech to itself. But there is one point connected with the silver question which I will touch, and it is the insecurity which it imparts to trade with the silver-using countries. That must affect your dealings with India and with others, and I am sorry to think that with regard to that insecurity there is no hope till you know what the

United States will do with respect to the Bland Bill. It seems to me that we must almost conclude that the uncertainty in the trade of the silver-using countries will increase, and that the position in that respect must get worse; and I do not hold with those who think that this country has little interest in the question because we are a creditor country. This is an argument which is often put forward that we are a creditor country, and that as amounts are due to us in gold, therefore the more gold will command for commodities the better for this country. But we are not all creditors; and though we may in the balance be a creditor country, there is an enormous interest in our trade with the silver-using countries; and so I trust that this silver question will fairly be kept in view by those who are responsible for our Indian Empire. It is a question of the deepest interest. As I have said, it is impossible for me at this moment to expatiate upon the subject; but I must submit that is a factor in the case, and a very important factor too."

Finally, we find from Hansard (3rd series, vol. ccciii, page 1491) that during the late session of Parliament, Mr. Goschen addressed the following question to the Chancellor of the Exchequer:--

"Whether, in view of the deep and increasing interest shown in various parts of the country on the silver question, he will consider the expediency of separating this urgent subject from the other matters referred to the Royal Commission on the Depression of Trade, and of appointing a separate Commission to inquire into the position of silver, the condition of the currency, and the various plans of utilizing silver to a greater extent for currency purposes."

We believe, in view of the above extracts, that we are justified in coming to the conclusion that, whether or no Mr. Goschen believes in the practicability of establishing a fixed ratio between gold and silver, he at any rate considers the silver question to be one of great importance, and is anxious that measures should be taken to utilise silver to a greater extent for purposes of currency.

Mr. Gibbs has entirely altered his opinion since 1878: is now of opinion that the establishment of a fixed ratio is not merely practicable, but in itself highly desirable: and for some considerable period has himself been President of the Bimetallic League. We are at a loss to understand how the change in Mr. Gibbs' views since 1878, which his writings on the subject have rendered matter of much notoriety, should, as would seem to be the case, have escaped the knowledge of the Lords Commissioners of Her Majesty's Treasury.

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Question of gain or loss to India from the fall in the rate of exchange.

11. With regard to the question whether India has obtained any such advantages from the fall in exchange as wholly or in part to compensate her for the undoubted injury which the fall inflicts, and specially for the loss on the gold remittances of the Government of India, we would observe that this is a matter on which opinion is by no means unanimous. The fall in the rate of exchange has coincided in point of time with a large development of Indian trade and a steady increase of Indian revenue; but many authorities hold that this growth of trade and revenue is due to a succession of several good harvests, to the increased energy shewn of late years in the construction of railways in India, to the cheapening of the cost of sea transport, and to the opening of the Suez Canal rather than to the fall in exchange. The question has been recently examined in a paper entitled "Indian Trade and Exchange," prepared by the Assistant Secretary in our Financial Department, copies of which have been forwarded for Your Lordship's information; and the considerations therein set forth materially assist in enabling a judgment to be formed upon this important matter. It is beyond question that the

instability in the relative value of gold and silver discourages the investment of capital in India ; and the higher rate of interest which we should have to pay for silver loans forces us to borrow in gold, and to accept the risk of a still further appreciation of that metal. The variations in exchange introduce great uncertainty in that large class of commercial transactions in which the element of time is involved. The fall in silver, by throwing unexpectedly a heavy burden on our finances, has more than once compelled us to defer the construction of public works intended for the protection of the country against famine, and has led to regrettable and wasteful fluctuations in our Public Works policy. These are evils of great magnitude ; and if we take into consideration also the direct accumulating increase to the public expenditure due to the fall in exchange, it is, to say the least, difficult to contend that India as a whole may have gained as much as she has lost. It has no doubt been argued that the fall in exchange by encouraging Indian exports has given a stimulus to industries in which India competes with countries that have a gold standard ; but, apart from the results of recent enquiry into this part of the subject which we have above alluded to, we have been unable to discover that the silver prices of Indian exports, or Indian commodities generally, have risen since the fall in the rate of exchange, and there are good grounds for believing that the effect of the change that of late years has taken place in the relative value of silver and gold has been to lower gold prices and not to raise silver prices. Apart from this aspect of the question, it further appears to us that the Lords Commissioners of Her Majesty's Treasury have failed to notice that those persons who are of opinion that India has gained by the fall in exchange hold, as an essential part of the same opinion, that England and all other countries with a gold standard have lost in an exactly equal degree. They argue that the rupture of the old ratio of 1 to 15½ between the two metals has led to a reduced supply of metallic money to countries with a gold standard, and an increased supply, of an exactly equivalent amount, to countries with a silver standard ; and if the increased supply has been a gain to the silver countries, it follows that the reduced supply must have proved injurious to countries with a gold standard by causing a general fall in the prices of commodities.

12. The Lords Commissioners quote, with seeming approval, the opinion of Mr. Barbour, our Financial Secretary, on the question of the gain or loss to India ; but we observed that they have omitted to refer to the passages in which Mr. Barbour states that the gain of the silver countries is balanced by a corresponding degree of loss on the part of the gold countries. The following extracts from the preface to the book quoted from show what Mr. Barbour's opinion is on this point :—

" This fall in prices has been aggravated in countries using the gold standard, and checked, or altogether obviated, in countries using the silver standard, by the partial demonetisation of silver. In so far as this has been the case, the silver countries have unquestionably gained, while the gold countries have lost." * * * * *

" Every fall in the gold price of silver will be followed by a corresponding decline in the gold prices of commodities, by increased disinclination of capitalists in London to invest money in India, by a reduction of profits, and a general increase of the burden of obligation already contracted in England."

These passages make it clear that the theory of gain to India by the fall in exchange is based on the belief that countries with a gold standard have lost in an equal degree ; and that, in short, the gain of the silver countries arises from a species of protection against countries with a gold standard. It is not possible to accept one-half of the theory, and to reject the other.

If the silver countries have gained by an increase of the supply of metallic money, the gold countries must have lost by an exactly equivalent reduction in the supply. We desire to lay special stress on this aspect of the case, because we find it stated that "England would not herself take the initiative in making changes which would have the effect of disturbing a monetary system under which she has enjoyed much prosperity," and no notice is taken of the fact that any special gain to India from the low exchange must have been attended with corresponding loss to England. In connection with the question of the prosperity which England may have enjoyed in former years under the gold standard, it should not be overlooked that up to 1873 England enjoyed the benefits of a comparatively stable ratio between her gold standard and the silver standard of other countries, and that since the wide departure from the old ratio occurred, the progress and prosperity of England have suffered a decided check. Without attempting to define the specific causes which have been in operation, we may observe that the prices of commodities have fallen very largely in England in recent years.

13. Even if, for the sake of argument, it be admitted that India, as a whole, has gained as much as she has lost by the fall in exchange, we are still of opinion that a change is imperatively required in the interests of the British Government in India. If the gain has just balanced the loss owing to the fall in exchange, we may reasonably conclude that in case of a rise in exchange, the loss would not on the whole exceed the gain, while the financial relief, and consequent political advantage, to our Government would be incalculable. This view of the matter was referred to by Sir Louis Mallet at the Conference of 1881 in the following words:—

"Although we may, no doubt, look forward in the future to some rearrangement of taxation when the depreciation of the coinage has produced its effect in a general rise of prices, and particularly in that of labour, we must wait a long time for that result; and meanwhile it would be impossible without serious political danger to propose new taxes based on considerations which the mass of the people would not be able to understand.

"But it is not only the actual loss which we have to think about; it is the absolute uncertainty which hangs about the future, and which prevents any serious or accurate calculation of the revenue and resources of Government."

These words have a special bearing on our present financial position. The recent renewal of instability, followed by a heavy fall in exchange, and maintained up to the present time, has rendered the most careful calculations we can make valueless. We have already imposed unpopular taxation, and we see before us the possibility of being compelled to have recourse to the imposition of further taxes alike unpopular and injurious to the well-being of the community. The future is, if possible, even less assured than it was when Sir Louis Mallet spoke. Moreover, the rise in prices, owing to the depreciation of the silver currency, to which Sir Louis Mallet looked forward, has not taken place; the alteration in relative gold and silver prices, which must necessarily follow the alteration of the exchange, has taken the form of a fall in gold, and not of a rise in silver, prices. We cannot, therefore, count, within any reasonable time, on such a growth of revenue as will enable us to meet the burden thrown on our finances in recent years by the fall in exchange.

14. Putting aside, however, all matters of minor importance, we desire to observe that, in our judgment, the question of the establishment of a stable ratio between gold and silver must be decided on broader grounds than the gain or loss of a single country, and that it is a question of world-wide importance, the interest of England in securing a permanent settlement being no less than that of India. So far as regards the monetary standard, no

country is, or can be, independent of the action of other countries. Apart from the dislocation of trade and industry caused by variations in the rate of exchange between two standards not linked by a legal ratio, each country is at the mercy of others, which, by adopting or discarding the gold or silver standard, can seriously prejudice the interests of that country which makes no change in the standard. England has made no change in the standard since 1816; but the result of the more extended use of gold by foreign countries is certainly not less serious in its effect on the industries of England and the interests of the English people than in its effect on French and American industries and interests. The Government of India, like that of England, has made no change in the standard; yet the action of foreign nations has placed our finances in those perpetually recurring difficulties which are set forth in our Despatch of 2nd February last, and threatens them with even greater disasters in the immediate future. The question of the monetary standard appears, therefore, to us to be pre-eminently one for settlement by international agreement; in no other way can a satisfactory or permanent settlement be effected; and we trust that Her Majesty's Government will abandon their attitude of absolute isolation—an attitude which, we venture to think, is both indefensible in theory, and in practice fraught with danger both to England and to India.

Omission to answer the arguments employed against the proposals of 1878.

15. In 1878 the Government of Lord Lytton proposed that the coinage of rupees should be restricted, by means of a seignorage, in such manner as to raise the value of the rupee from 1s. 7d., the market rate of the day, to 2s.; and these proposals contemplated ultimately the introduction into India of a gold standard. The Lords Commissioners of Her Majesty's Treasury refer to this proposal, and express regret that in the Despatch of 2nd February last the Government of India has not replied to the arguments which led to its rejection, nor shown that it has now some scheme in view which is not open to similar objections. Great importance is evidently attached to this point, as in Mr. Fowler's letter of 31st May the arguments used against the proposals of 1878 are repeated, and it is added that "the Lords Commissioners find no reason stated in the Despatch of the Government of India in the present year which induces them to dissent from the conclusions thus set forth on the authority of Sir Stafford Northcote as to the results of any attempt to artificially enhance the gold price of silver." We confess to having read these remarks with surprise, as, for the reasons which follow, we can perceive no analogy whatever between the proposals of 1878 and those which we recently put forward.

16. The proposals made by the Government of India in 1878 involved the restriction of the coinage of rupees, a measure which, in our recent proposals, we have not advocated. The proposals of 1878 aimed at establishing a fixed ratio between gold and the coined rupee, which is a totally different matter from the establishment of a fixed ratio between gold and silver. The Government of 1878 proposed to establish between gold and the rupee the ratio of ten rupees equal to one pound sterling, while the proposal contained in our Despatch of 2nd February last merely involved the establishment of a stable ratio between gold and silver, and left the question of what that ratio should be for future discussion. The proposals of 1878 could have been carried out by legislation in India, and were entirely independent of international agreement; the essential feature of our present proposals is their dependence on

international agreement. The proposals of 1878 would not, as seems to be supposed, have raised the gold value of silver, but would, on the contrary, have tended very materially to reduce it. The arguments used against the measures advocated in 1878 have, therefore, no bearing on our recent proposals; and, as those measures lay outside the scope of the recommendations contained in our Despatch of February 2nd, we admit our inability to perceive why, in that Despatch, we should have been at the pain of answering them. The proposals contained in our Despatch of 2nd February did not necessarily involve the raising of the gold value of silver to the old ratio of $15\frac{1}{2}$ to 1. It was our intention that the question of the precise ratio to be adopted should be left for future discussion, and for settlement after full consideration of all the interests involved, and after ascertainment of the views of the principal nations interested in the matter. Even if a Conference should have decided on the adoption of the old ratio of $15\frac{1}{2}$ to 1, we cannot admit that the change could more accurately be described as one for raising the value of silver rather than as one for lowering the value of gold. The essential end to which our recent proposals were directed was the establishment of a stable ratio between silver and gold; and even if a higher ratio than the market ratio of the day had been adopted, the procedure which we advocate would have had as much effect in lowering gold as in raising silver. The scheme of 1878, on the other hand, would have materially lowered the value of silver, and must ultimately have had the effect of raising the value of gold by increasing the demand for it. We fail, as we have said, to perceive anything in common between the two proposals; and we conceive it unnecessary to remark further on this portion of the question.

Possibility of relieving the finances by reduction of expenditure,

17. In paragraph 15 of Mr. Fowler's letter, our attention is directed to the importance of the reduction of expenditure, and it is added that the principal element which has determined the unfavourable condition of Indian finance, and which has conduced to our difficulties more obviously and certainly than the fall in the price of silver, is the alarming growth of expenditure. The general question of the growth of expenditure on the civil administration of India was dealt with very fully in the Despatch from Lord Ripon's Government, No. 233, dated 24th August 1883,* and in the Minute* by Sir Evelyn Baring, which accompanied, as well as in other correspondence which took place about the same time, and which was published as a Parliamentary blue-book in August 1885. We can add nothing to what is contained in the correspondence in question, beyond remarking that our financial difficulties since that date have forced us to scrutinise very narrowly all proposals for incurring additional expenditure, and that we have been compelled to put aside many valuable reforms simply because we could not find the means to carry them out. We do not know to what facts the Lords Commissioners of Her Majesty's Treasury more particularly desire to draw attention when they speak of the alarming growth of expenditure. The fall in silver has no doubt added largely to expenditure on account of exchange, and we have been obliged to incur expenditure in the construction of Famiae Railways, which do not, for the present at any rate, return a profit sufficient to cover interest on capital. The same remarks hold good in regard to the expenditure on Frontier Railways and Coast Defences, while the events that have occurred in recent years beyond the North-West Frontier have compelled us to increase the Army, both European and Native. Her Majesty's

* Not printed in this volume.

Government, we believe, concur with the Government of India in the necessity of measures calculated to minimise the risk of such loss of life as occurred in the Madras famine, and to guard against external attack on the North-West Frontier of India. So long as the adequate protection of India against the consequences of war and famine is an essential portion of the policy of Her Majesty's Government, it is premature to object to the expenditure which the attainment of these ends necessarily for a limited time involves.

18. With the exception of the expenditure referred to in the preceding paragraph, which was incurred deliberately and with a full knowledge of the burden it would impose on the country, and which we should gladly have avoided if we could safely have done so, we are not aware of any great growth of expenditure in recent years. The measures taken in 1881 to provide an insurance against the financial effects of famine have, no doubt, added nominally £1,500,000 (conventional sterling) to the expenditure; but this was, as those conversant with Indian finance are aware, a measure of economy, and this item of £1,500,000 is of the nature of a reserve or insurance fund. Possibly the fact may have been overlooked that the Government of India is now a very large Railway proprietor, and that the opening of new Railways necessarily involves an addition to the yearly expenditure of the total amount of the working expenses of the Railways. This expenditure cannot, however, be avoided; it brings in corresponding revenue, and can in no sense be treated as an addition to the cost of government, properly so called. The danger of misunderstanding arising from this cause was alluded to in our Despatch No. 331, dated 1st December 1885, in the following terms: "The rapid increase and great complexity of the Railway transactions make it very inconvenient to embody them in Finance Accounts, and the apparent increase of revenue at the disposal of Government as new lines are opened and corresponding apparent increase of cost of governing the country give rise to mistaken idea of the increasing income and extravagance of the Government." But whatever the origin of the remarks regarding the growth of expenditure may be, we must be allowed, with all deference, to maintain that we have by no means been forgetful of the relief to the finances which can be obtained by reduction of expenditure; the fall in the gold value of silver has more than once led to reductions of expenditure, which have caused serious administrative inconvenience; and we are at the present time engaged in making every reduction which is reasonably or safely practicable, though there is no hope that any economies we may be able to effect will do more than cover a fraction of the additional burden imposed on India by the recent fall in exchange.

19. In order that there may be no room for misunderstanding as to the serious effect which the fall in exchange has had on the course of Indian administration, and of the repeated efforts which have been made to meet the additional expenditure therein involved by reduction of expenditure, we will briefly review the facts of the last 10 years. In the Financial Statement for 1876-77 Sir William Muir remarked as follows:—

"The sudden depreciation of silver, and the consequent enhancement of charge to the Government of India in laying down yearly the sum required in England of about fifteen millions sterling, without doubt, cast a grave shadow on the future. In truth, it may be said that the danger, from whatever point of view considered, is the gravest which has yet threatened the finances of India. War, famine, and drought have often inflicted losses on the Exchequer far greater than the charge which threatens us in the present year. But such calamities pass away: the loss is known and limited; and when it has been provided for, the finances again stand on sure and stable ground. This is not the case with the present

cause of anxiety. Its immediate effects are serious enough, as has already been shown. But that which adds significance to it is, that the end cannot be seen; the future is involved in uncertainty."

As a consequence of the position in which the Government found itself owing to the fall in exchange, measures were taken in July 1876 for the effective curtailment of expenditure on Extraordinary Public Works, and at the same time all outlay of public money on the ordinary civil administration was stopped "which is not absolutely necessary, or to which the Government is not committed, or the discontinuance of which will not cost disproportionate loss and waste.

20. In November 1878 measures were again taken "for the reduction of the ordinary expenditure of the country within the narrowest limits," but these measures were based on the probability of heavy war expenditure, as well as on the fall in exchange. The orders given in November 1878 were followed up in May 1879 with equally stringent orders for still further reduction of expenditure in all branches of the administration. The contracts with Provincial Governments were temporarily set aside, and contributions obtained from them to help to tide the Government of India over its immediate difficulties. The result of the measures taken involved a reduction of £758,000 in ordinary expenditure, as well as the reduction of Productive Public Works expenditure by £1,000,000 yearly, although the ordinary expenditure of 1879-80 was already £1,000,000 below the average expenditure of the two preceding years.

In June of the same year the following language was used: "Rigid economy in every branch of the public service is in present circumstances the policy which must be followed. To quote again the words of the Despatch of the 1st May:—

"Unless positive necessity exists, no improvements in administration, able, must be undertaken if they involve increased charges; no fresh offices be entertained; no new offices must be created; no new works, which can be postponed, must be commenced.

"It is through this policy of retrenchment and economy that the necessity for fresh taxation has for the present been avoided; and if the value of gold to silver should further increase, strict adherence to this policy will be rendered essential."

The language used by Lord Lytton's Government in their Despatch No. 138, dated 22nd May 1879,* shows how great must have been the pressure which compelled them to have recourse to such reductions:—

"We do not propose in this Despatch to discuss the circumstances which have rendered it necessary to undertake these reductions in the expenditure. The progress of the result will undoubtedly be that the injury to the public credit will be lessened, and we in no way disguise from ourselves the injury which will be entailed on the Government, by every step which we take in the policy which we are satisfied is essentially wise, and which has on the whole attended with eminent success. The circumstances which have regret have been forced upon us by circumstances which our Government is in no degree to be blamed for."

21. From 1879-80 the rate of exchange remained nearly constant. In some years, the average rate obtained for home remittances having been as follows:—

Year	Average rate
1879-80	105
1880-81	105
1881-82	105

* Not printed in this volume.

The surplus revenue, which was found to exist in the beginning of 1882-83, was used, not for the increase of expenditure, but for the reduction of taxation, including the removal of the general import duties.

After 1881-82 the course of exchange was steadily downwards, and in 1883 the question of reduction of expenditure having been brought before, and impressed upon, the Government of India by the Secretary of State for India in Council, the matter was exhaustively considered, as will be seen from the correspondence referred to in paragraph 17 of this Despatch.

In 1885 stringent measures were taken for the reduction of expenditure in consequence of the probability of a war with Russia; and in order to meet the cost of military preparations, reductions were effected in the sanctioned expenditure of 1885-86 to the extent of over £1,500,000 (conventional sterling). As regards the current year, we may observe that at the time of framing the estimates our financial difficulties were seen to be so great, that every effort was made to keep down expenditure, and the extreme measure was adopted of withdrawing the sum of £400,000 from Local Governments, and consequently of reducing the possible Provincial expenditure by that amount. In February 1886 a Committee was appointed with the special object of effecting reductions of expenditure, and is at present earnestly prosecuting enquiries directed to this end. The language used in the orders appointing the Committee indicate the anxiety with which we have sought economy in the hope of avoiding taxation.

“The circumstances in which the Government now finds itself placed compel it to examine with renewed and anxious attention the possibilities of such an effective decrease in its expenditure as shall in a sensible degree contribute to relieve it of the financial embarrassments with which it is threatened. The uncertainty which prevails regarding the future relative value of gold and silver compels the Government to contract, so far as is possible, expenditure which in other circumstances may have been desirable or necessary, but which at present it can no longer maintain.”

22. The sketch which has been given of the financial history of the last ten years is sufficient to show that the Government of India has been very far from unmindful of the relief to the finances which may be obtained by economy and reduction of expenditure; it demonstrates, on the contrary, that such relief has frequently been secured at the cost of great detriment to the administration. We are at present again seeking to effect all possible economies in the cost of civil administration, and we hope in this way to secure an improvement to the extent of at least £500,000 yearly. How insufficient this relief may prove in comparison with the burden thrown on the finances by the fall in exchange, will be seen from the fact that, though the rate of exchange for the estimates of 1886-87 was taken at only 1*s.* 6*d.* per rupee, we have at present to contemplate the possibility of taking a rate as low as 1*s.* 4*d.* per rupee in the estimates of 1887-88—a fall which would impose an additional yearly burden on our revenues of more than £2,000,000 (conventional sterling).

Looking to the facts which we have stated, we are compelled to arrive at the conclusion which admits, in truth, of little dispute, that further reduction of expenditure is unlikely to give us financial relief in any degree commensurate with the magnitude of our difficulties; and that the contention that the alarming growth of expenditure in late years is the principal element in the unfavourable condition of Indian finances will not stand the test of examination.

Nature of the remedy proposed.

23. With regard to the complaint that we have not definitely indicated the nature of the international agreement which should supply the solution of the silver question, we desire to observe that it appeared to us that we stated with sufficient plainness that the end to be aimed at was a stable ratio between gold and silver, and that the means for the attainment of this end was an international agreement between the countries interested in the question. We did not specify the exact ratio which we wished to see established, nor the precise nature of the agreement, because we felt that on both these points it would be necessary to ascertain and take into account the views of foreign powers, and that any attempt on our part to lay down the exact terms of the settlement at the outset might have a prejudicial effect on the negotiations. If Her Majesty's Government had been willing, under any circumstances, to recommend the opening of negotiations, there would have been no difficulty in obtaining a more definite expression of our views by telegram. Your Lordship will, moreover, not have forgotten that on May 29th* of the present year, while we were still awaiting the reply of the Lords of the Treasury, we submitted specific proposals, which were only not laid before the Lords of the Treasury because their letter was received by Your Lordship's predecessor very shortly after the recommendations we refer to reached him. What we consider essential in the interests of the finances of British India is the establishment of stability in the relative value of gold and silver, and the removal of the danger which hangs over the silver market from the existence of large quantities of overvalued silver money in the currencies of France, the United States, and other countries. For the attainment of these ends, we propose generally the utilisation of silver as currency to a greater extent than is the case at present, as well as an international agreement for the free coinage of silver, and the making of both gold and silver coin a legal tender at a fixed ratio by a group of nations possessed of a metallic currency of sufficient extent to maintain that ratio permanently. The question of the ratio to be established is one which must be decided by the nations which undertake to coin both gold and silver freely, and it should be a ratio not lower than the average market ratio of recent years, and not higher than the former French ratio of 1 to 15½. So great is the importance which we attach to stability of relative value, that we do not consider that there would be sufficient grounds for objecting in the interests of India to any ratio, within the limits above indicated, which might be approved by the other nations concerned; and on behalf of India, we would be willing to undertake either to maintain the present silver standard, or to coin both silver and gold for all comers at the fixed ratio. It does not appear that any plainer expression of our views, or any proposals of a more specific nature, could be expected, or should be required, at the present stage.

24. In conclusion, we desire again to express our conviction of the importance, in the interests of British rule in India, of coming to a speedy and final settlement of the silver question. In our Despatch we stated, in the clearest terms, but not, as we have said, on every occasion the occasion required, the nature and extent of the remedy which India is exposed in the present state of the silver market to which we need not repeat our observations. The immediate cause of the difficulty which we specially took into consideration was the possibility of

* THE LONDON GAZETTE, 29th MAY 1892.

the repeal of the Bland Act by America. Since the date of our Despatch, although there is every prospect that America will, for the present at least, continue the coinage of silver, the rate of exchange has fallen $1\frac{1}{2}d.$ per rupee. The additional burden thrown on our finances by this fall of $1\frac{1}{2}d.$ in the gold value of the rupee, after all allowance made for any possible set-off, amounts to at least £1,750,000 (conventional sterling) yearly, and it is quite possible that the repeal of the Bland Act by America might increase the burden by an equal amount. We cannot hope to cover more than a fraction of the amount already added to our expenditure through the recent fall in silver by any economies in the cost of the administration which we may be able to effect. Even though the measures which we are now carrying out for the defence of the country against war and famine should, in view of our pressing financial difficulties, be curtailed, further taxation appears at present to be inevitable; and when we have again established equilibrium, there is no prospect that the settlement will be final, or even reasonably permanent. A rise in the rate of exchange may prove that unpopular measures of taxation have been undertaken unnecessarily; a fall may force us to impose further taxation. Meanwhile the pressure of our present difficulties is compelling us to use resources which we relied upon as a reserve to meet the cost of possible war or famine. Above all, our finances will still remain subject to the special uncertainty due to the unsettled condition of the American currency. Your Lordship is aware that a powerful party in the United States of America presses for the stoppage of the coinage of silver. If that course should be adopted in the immediate future, our financial difficulties threaten to be greater than any which the Government of India has hitherto experienced. We do not therefore hesitate emphatically to repeat that, from the point of view of Indian finance, the position has become intolerable.

XLIII.

MEMORANDUM BY LIEUTENANT-GENERAL R. STRACHEY, C.S.I., DATED 31st MARCH, 1886.

The Secretary of State for India, in his letter to the Treasury, dated 28th January, 1886, has declared "that it is imperatively necessary to make every effort to find some remedial measures which shall release the Government of India from the position in which it is now placed" by the changes which have taken place, and appear to be still likely to take place, in the relative values of gold and silver, operating through the different currencies of England and India.

2. As the Indian Mints are, under the existing law, open for the unlimited coinage of silver, it is apparent that, so long as this is the case, the exchange value of the rupee reckoned in gold cannot fail to stand very nearly at the amount in gold currency which will buy, carry to India, and pass through the Mint the quantity of silver which, according to law, the rupee must contain. Consequently the fall of the exchange which has caused the present difficulties in India can be arrested only in one of two ways, that is, either by the cessation of the fall of the relative value of silver to gold in the world generally, or through the adoption of a gold standard by the suitable regulation of the coinage of silver in India.

3. Now as to the first of these alternatives, it is obvious that the production of silver and gold is beyond external control; the existing conditions of the production and demand for the two metals has led to the relative depreciation of silver, and the only manner in which this depreciation can be checked is by increasing the relative demand for silver, which, there is reason to think, can only be done sufficiently by reviving the free coinage of silver to an extent approaching that which prevailed before the recent fall in its value in relation to gold began. This again, it is generally considered, can only be brought about by international agreement, and it is to press upon Her Majesty's Government the importance of endeavouring to obtain this solution of the difficulty that the letter to the Treasury above referred to has been written, the necessary steps for attempting it lying beyond the sphere of action of the Indian Government.

4. Unfortunately, all the attempts hitherto made by the nation to have the power of giving effect to this solution have failed. India, with her gold coinage, has no such power nor can she otherwise be enabled to do so, matter than by retaining her existing silver currency; nor is there any motive for desiring to change that currency, in the absence of any national defence, in order to escape from the intolerable position in which she is now placed by the continued fall of the value of silver.

5. The experience of the last eight or ten years has shown that relief cannot reasonably be expected under a policy of inaction, and the Government is bound to consider what may best be done. The only remedy cannot be obtained by acting on the present policy, but through international agreement or otherwise. The Secretary of State in Council, in this view, has announced that he has written to the Treasury "how far it may be advisable to meet the exigencies of the case by action falling within the competency of the Government of India."

It is not the design of this paper to enter on any discussion of the many difficult questions that are raised by a general inquiry into the causes and effects of the recent changes in the relative values of the precious metals, or the possible means of restoring their former valuation, or of otherwise remedying any evils which those changes may have produced or are likely to produce in the future. These questions could only be usefully dealt with, so far as the practical action of Great Britain in relation to them is concerned, under the authority of Her Majesty's Government; and it is in view of the not improbable failure of relief in this direction, that I propose to treat the subject exclusively with reference to the administrative necessities, obligations, and powers of the Government of India.

6. The question, therefore, will now be considered how far the second alternative, namely, the adoption of a gold standard by the suitable regulation of the coinage of silver in India, is practicable or expedient.

7. It may at once be freely admitted that it is a very extreme measure to interfere with an established currency, and that nothing but extreme urgency can justify it. Therefore, before taking any step in this direction, a very careful examination is necessary of the relative gravity of those evils which on the one hand any suggested change is likely to produce, and on the other of those which will arise if no change is made.

8. A summary statement of this last class of evils will be found in the letter to the Treasury before referred to, to which and to the many representations of the Government of India on the subject reference should be made for more full details. Briefly, it is contended that India is now in a position in which the continued fall of the exchange value of the rupee must lead to additional charges which cannot be met without continually increasing taxation, the necessity for which, by reason of the peculiar habits of the people and of their impatience of change and of new forms of taxation, as well as of the character of the Government, would constitute a political danger of the utmost gravity; while, otherwise, the same cause places serious obstacles in the way of the investment of capital in India, and thus arrests progress, which is alike of vital importance to the prosperity of India and England. In the estimation of those responsible for the government of India there can be no question more serious than how to guard against these evils, and hardly any sacrifice which should not be accepted to ensure protection from them.

9. Whether or not it may be possible to find, through a modification of the currency of India, a remedy which will be less productive of evil than inaction, is what I now propose to discuss.

10. The evils to be dealt with arising wholly from the different standards of the currencies of England and India, the remedy must be sought in some arrangement which shall link the currencies, or, in other words, by the adoption of a common standard, which again evidently involves the acceptance, in some form, of a gold standard by India.

11. In India at present gold is not a legal tender; there is no current gold money, and there has been none almost from the commencement of the century, and it would be clearly impracticable, from a purely Indian point of view, to replace the existing silver standard currency with a gold standard currency based on a gold coinage, leaving the silver coinage to assume a subsidiary place. There are, however, other cogent reasons for setting aside altogether any suggestion to introduce a gold coinage in India, in any form, in present circumstances. To do this could hardly fail to aggravate the fall of

prices measured in gold which is going on, and which is generally believed to be due to the appreciation of gold by reason of its comparative scarcity in relation to other commodities, of which silver is only one. Moreover, a gold coinage could not be introduced without at the same time fixing its relative value to the existing rupee coinage, which could not be rated at anything sensibly different from its present exchange or bullion value; and this would render any readjustment of the values of the gold and silver coins in the future, if not impossible, at least extremely difficult, and would diminish greatly, or extinguish, all hope of any international arrangement of the values of the two metals for currency purposes, such as might supply a satisfactory remedy.

12. The problem therefore becomes restricted to giving India a gold standard of value without discontinuing the existing silver coinage or interfering with the general system of currency, and without introducing a gold coinage. For its proper solution provision should at the same time be made for the automatic expansion of the currency to meet the requirements of trade, and precautions should be taken against inflation from arbitrary action on the part of the Government. Moreover, the aim should be the prevention of the further fall of the exchange value of the rupee, not the forced rise of this value; and security should be obtained against inconvenience from any future possible rise in the relative value of silver to gold, and for a return to the free coinage of silver when the relative values of the two metals rendered it possible.

13. I believe that all these conditions could be complied with in the following manner.

The Government should be authorised by the Secretary of State in Council to take legislative power to suspend that part of the existing law (The Indian Coinage Act, XXIII of 1870) which requires the Mints to coin all silver brought to them; but this power should be exercised subject to the provision that, so long as the Mints were thus closed against the unlimited tender of silver, they would be open to the tender of gold, a stated maximum number of rupees (say 13) of the present standard of fineness and weight, which would remain unchanged, being given in exchange for the quantity of gold contained in a sovereign. The gold would not be coined, and would merely serve as a medium by which to measure the future cost of the rupee; so much of it would be sold, or exchanged for silver bullion, as would supply the quantity of silver required for the coinage of the requisite number of rupees to be given in exchange at the fixed rate, and the residue would be retained by the Mint, and virtually be a charge of the nature of seigniorage. Power should be given to revoke the suspension, and then the free coinage of silver on the original basis would be revived. Consequently the Mint would always be open either to gold or silver; in the former case a fixed number of rupees in silver being given by the Mint in exchange for a fixed weight of gold, silver not being accepted for coinage; in the latter a rupee being given, as at present, for a fixed weight of silver, and gold being then no longer received.

14. The number of rupees above named, 13, represents approximately the equivalent of one sovereign in rupee currency at the rate of 1s. 6d. Consequently, after the application of the proposed conditions to the rupee currency could not be made at a less rate than 1s. 6d. per rupee, and the exchange could not fall materially below that rate. This rate has been assumed as representing that below which the rupee

has not yet fallen permanently or for a prolonged period, the intention being to accept the actual rate at the time the change is made, *above* which no attempt would be made to force the exchange, but *below* which it should be prevented from falling.

15. In this manner, and by permitting some margin of delay in carrying out the change, to cover cases of bargains for the delivery of silver previously made, there need be no unfair interference with vested interests. The doctrine that because a metal has once been adopted as the standard for the currency of a country, it must for all time, and in all circumstances, be retained as the standard, cannot be supported by any valid argument. That it is unjust to make changes in any arbitrary way, which must affect debtors and creditors in directly opposite directions in respect to transactions already entered into, may be admitted; but it is contrary to reason to say that it is wrong to guard creditors against future changes, which must be injurious to them, while they must be beneficial to debtors, and which will operate in a manner that was not contemplated when their engagements were entered into. The essential object of a currency law is to give stability to the standard of value in all transactions, and to give equal protection both to creditors and debtors; and if it fails to accomplish this, it may become the means of inflicting the greatest injury on innocent persons in an irresistible manner (which certainly has been the result of the Indian currency law), and so far as a remedy can be applied without extending the injury already inflicted, it not only may properly be done, but assuredly ought to be done.

16. Although the basis of the proposed arrangement would be to authorise the unlimited tender of gold at the Mints to be exchanged for silver money, its practical operation would not require the use of gold except in comparatively small quantities, far less indeed than what already finds its way to India in the ordinary course of trade.

17. Under the actual conditions of Indian trade, the import of silver into India and its coinage into rupees are so closely connected with the forced remittances from that country to England, that in ordinary circumstances (and excluding demands created by rupee loans issued in India) additions to the coinage to a very great extent correspond with the amount of currency required in India for purposes of foreign trade in excess of the sum which the Secretary of State offers in exchange for gold in London through the sale of his bills. Viewing the matter in this light, the proposed measure would cause hardly any disturbance of the existing system.

18. The great bulk of the exchange operations between England and India would be conducted as heretofore by means of the Secretary of State's bills. When the supply of rupees thus made available for trade purposes was exhausted, and further remittances were needed, the direct mode of procedure would be to send gold to India instead of silver as at present. As before said, the Mint on receiving the gold would sell so much of it as would purchase the quantity of silver required to provide the proper number of rupees to be given in exchange, and would coin that silver. But the necessity for the tender of the whole quantity of gold could obviously be avoided by the Mint receiving silver bullion sufficient in weight for the coinage of the required number of rupees, and only requiring in gold the excess value of the rupees, reckoned at 13 per sovereign, over their bullion value as silver. This excess value would virtually become a charge analogous to that for coining, and would be determined from time to time by the Mint, the public being

protected from overcharge by its legal right to receive 13 rupees for the gold in one sovereign, and by the small advantage that it would always be worth the while of the Mint to offer to the public, in order to be saved the trouble of selling the gold and buying the silver. To facilitate remittances from England this system might be readily extended by the Secretary of State giving to any one, on payment in London of the proper gold seigniorage, authority for having coined in India, without further payment of seigniorage, specified amounts of silver bullion. Precisely the same general course might be followed in dealing with the coinage of silver required for purposes of trade arising in India.

19. As under such a system the State would necessarily profit by the coining of silver, and an inducement would thus be offered for the illegitimate inflation of the currency by the Government coining for itself, it might be thought desirable to declare that the gold seigniorage received by the Mints should be sold in India or remitted to England, and further that the Mints should not coin for the Government, so that any extraordinary Government demand for silver money would have to be met by borrowing in India.

20. Suitable modifications would have to be made in the paper currency into the details of which it is not necessary to enter, as they would involve no difficulties. Attention would also have to be given to the Native Coinage Act, which provides for coining for Native States in India, but has been almost inoperative; as well as to the convention with Portugal relative to the coinage for Portuguese India, which is so framed as to cause no inconvenience.

21. The facts bearing on the import of the precious metals into India and on the coinage of silver for some years past justify the conclusion that a system such as that suggested could come into operation with very little interference with the existing course of trade, and without leading to the wasteful re-exportation of gold; these facts are otherwise of much interest, and throw valuable light on the general questions which underlie these discussions.

22. The average net yearly value of the imports of silver into India for the last five years ending March 1885 amounted to 61 million rupees. Of this 44½ millions were coined, and of the coined silver probably about 10 millions were exported annually, leaving about 35 million rupees for the yearly addition to the silver currency. During this period the yearly average amount of the Secretary of State's bills sold was 195½ million rupees. The average net imports of gold were valued at 47 million rupees.

For the five years next preceding, between March 1880 and March 1885, the average net import of silver was 70½ million rupees yearly. The average, however, was nearly 85 million rupees yearly. The larger amount of silver in this period followed the smaller amount of bills sold and increased by the increase in the coinage in India, and the excess of coining over imports was due to a period, which was one of prolonged famine, a large amount of silver bullion was brought out for coinage. The average amount of bills sold was 151 million rupees. The average value of the import of gold was only six million rupees.

Going back five years further it appears that the average net imports of silver were, on the average, only 30½ million rupees yearly. The average amount of bills sold was 29½ millions, and Secretary of State's bills sold was 151 million rupees.

During the five years between March 1875 and March 1880 the exchange fell from 1*s.* 11*d.* to 1*s.* 10*d.*; from 1875 to 1880 the exchange fell from 1*s.* 9*d.*

1s. 8d. per rupee, averaging 1s. 8½d. In the five years from 1880 to 1885 the exchange further fell from 1s. 8d. to 1s. 7¼d., averaging about 1s. 7½d. per rupee.

23. For the present financial year the returns available show that up to the end of December (nine months) the net imports of silver had risen to 85½ million rupees, as compared with 51 millions in the same portion of 1884 and 38 millions in 1883. The amounts of silver coined in the corresponding months of three years were 81¼ million rupees in 1885, 36¼ millions in 1884, and 21½ millions in 1883. The corresponding net amounts of gold imported were 21½ million in 1885, 43½ million in 1884, and 44½ million in 1883. In the same months the Secretary of State's bills sold amounted to 80 million, 108 million, and 135 million rupees respectively. Since the beginning of the year the exchange has fallen from 1s. 7¼d. to below 1s. 8d.

24. From the foregoing facts it seems to follow that the fall in the relative value of silver to gold which has been going on since 1870 has not had any perceptible effect on the general import of the two metals into India; and still less can any relation be established between this fall and the additions to the rupee currency, which have been governed by trade demand, and are largely affected by the greater or smaller amount of the bills offered for sale by the Secretary of State and the sums borrowed in India.

25. The imports into India of gold and of silver bullion in excess of that required for coinage appear to be mainly governed by the limited demand in that country for foreign manufactures, and the disposition of the people to hoard the precious metals; and they are evidently directly affected by seasons of prosperity, to which the increased imports of gold in recent years is not improbably due.

26. The fall in the exchange value of the rupee seems to have followed slowly year by year, the appreciation of gold; the competition of silver with the Secretary of State's bills as a means of remittance, having operated rather in the way of keeping the exchange down to the gold value of the rupee for the time being, than of stimulating a fall, though occasional periods of pressure on the exchange have occurred. Such a pressure, probably due to fresh fears as to the action of the United States of America in respect to the coining of silver, seems to have been among the causes of the increased import of silver in the latter part of 1885, and contributed to the failure of the Secretary of State selling the full amount of the bills offered by him; the largely increased military expenditure earlier in the year, however, must in any case have been followed by an increased import of silver, leading as it did to a deficit of nearly three millions.

27. During the last four years India has absorbed not less than one-fifth part of the entire quantity of gold supposed to have been produced throughout the world, which is now estimated at somewhat less than 20 millions sterling yearly; and this has been wholly withdrawn from use as money. The average import over the last eight years has been about one-eighth of the annual yield.

28. As to silver, the annual production of which is now estimated at 22 or 23 millions sterling, the quantity taken by India on the average of the last eight years has been about one-fourth part of total yield, and this rate seems to be maintained.

29. During the last 10 or 15 years the period in which prices measured in gold out of India have continued to fall, prices measured in silver in India

have virtually remained unchanged. The evidence of this may be regarded as conclusive, and the fact can hardly signify anything but that, while the quantity of money in countries using gold has gradually become insufficient for their wants, India has been able to obtain the supply needed to keep her prices unchanged, and that there is no natural tendency to increase or diminish the supply of money beyond what will ensure this.

30. On the whole, there seems no reason to suppose that the future demand for silver for India, which shows no signs of increase, could become a factor of any great importance in determining the value of silver in relation to gold, or that additions to the rupee currency could sustain the value of silver in the future, by increasing the demand for that metal, to any greater degree than they have done in the past; and the same conclusion may be extended to the entire Indian demand for silver. There seems, therefore, to be nothing in the conditions of Indian trade that can tend to check the fall of the exchange value of the rupee; and it is idle to anticipate relief from any expansion of that trade which has increased more than 50 per cent. in volume, while the exchange has been steadily falling from nearly 2*s.* to 1*s.* 6*d.* per rupee.

31. It also appears that while the present average yearly addition to the rupee currency is little more than 45 million rupees, with a tendency rather to diminish than increase, the value of the imports of gold has for some years gone somewhat beyond that amount; so that even if the proposed system of coining silver were strictly applied and the whole of the gold needed to admit of an addition of 45 or 50 million rupees to the silver currency were passed through the Mint, that amount of gold would be forthcoming without any necessity for increased imports or wasteful re-exports. In no case could any difficulty arise as to the requisite quantity of silver, and under the arrangement previously explained the quantity of gold required, in the event of the value of silver falling to 1*s.* 4*d.* per rupee, would probably be less than 500,000*l.* yearly.

32. So long as the price of silver remained below that corresponding to the fixed rate, 13 rupees to the sovereign, the quantity of silver required for coining at that rate could be purchased by the Mint with a profit. If the price of silver rose and it was no longer possible to buy silver without loss, the Mint would once more be thrown open for unlimited coinage. Small variations of the price of silver on either side of the fixed rate would not affect the financial position of the Mint, and might be disregarded.

33. Although a measure such as that proposed, which, on the further fall in the value of silver, would increase the cost of the rupee measured in gold above what it would have been had the Mint remained open, might have the effect of causing a somewhat smaller demand for silver than that which might have arisen with an open Mint, there is no good reason for thinking that it would lead to any contraction of the rupee currency, or to any decrease in its volume, or prevent its natural expansion on the scale that would be required for trade purposes had the value of silver remained fixed. But no doubt, as the value of the rupee in relation to gold becomes fixed, so prices expressed in rupees would follow the value of gold. If, on a further appreciation of gold, the rupee would rise in value, and prices expressed in rupees would tend to fall. How soon or how far such a result would be felt, it is impossible to say. But it may be remarked that the large imports of gold into India of late years compared to silver, and the absence of any marked tendency to increase the rupee coinage, suggest the inference that an action may have been set up in the opposite direction, and

that India is now supplied with as much silver as is needed for her currency, and that this is becoming redundant, leading to a tendency for prices to rise, and giving a preference to the hoarding of gold rather than silver.

34. It is very necessary to bear in mind that the obligatory payments of India in England, in gold currency, must lead to an increase of the burden of taxation on India, corresponding to every appreciation of gold in relation to the merchandise by means of which the remittances to supply those payments are made. Whatever be the relative value of the rupee and Indian exports, the necessary volume of the exports rises and falls with the rise and fall of gold in relation to the exports. If the value of the rupee remains unchanged in India in relation to produce, while it falls out of India, a larger number of rupees must be provided by taxation to meet the Government payments out of India; if the value of the rupee rises in relation to Indian produce, a smaller number of rupees will be needed, but the real burden of taxation will be to the same extent increased; but with the important difference that in the former case the burdens would have to be imposed directly by new taxes, and in the latter the needful result would be obtained imperceptibly through a fall of prices. Thus would be averted a recourse to those most dangerous measures of additional taxation against which no other practical safeguard has ever been suggested, and the impending necessity for which daily becomes more alarming.

35. It is important that no misconception should arise as to the nature of the difficulties in which the Government of India is placed by the fall in the exchange value of the rupee. These difficulties, amounting, as has been more than once said, to very serious dangers, are mainly administrative and political in their nature, and though they are attended with very mischievous consequences affecting the employment of foreign capital in India, it is not, and I believe never has been, alleged that what was long termed in the public Accounts "Loss by Exchange" is anything more than the increased sum in rupees required to discharge the gold liabilities of the Government in England; neither has it been questioned that, with a fall in gold prices, India obtains some set-off against those increased rupee payments.

36. So far as the fall in exchange serves to stimulate the Indian export trade, by requiring the export of a larger volume of produce to discharge payments to be made out of India, the advantage it gives is to a limited class of producers, and is paid for by the general tax-payer so far as the Government remittances are concerned, and by the foreign investor of capital in India, or those persons who have to make or receive remittances from India, as regards the residue. The export of the increased quantity of produce required to compensate for its fall in value measured in gold must be paid for in the case of Government remittances by increased taxation, or made good by reduced expenditure on useful objects, and the country is in the end left the poorer to the full extent of this. The stimulus thus applied to Indian trade in no way differs in its operation from that of a bounty on exports provided from the public revenues, and, in the case of wheat, supports India in competing with English agriculture. It is certain that India as a whole cannot benefit from such a state of things, though no doubt it is greatly to the interest of a particular class to maintain it.

37. That the trade of India has greatly increased during the period in which the fall of the exchange value of the rupee has been going on, is beyond dispute; the total value of the imports having increased from 443 million

rupees in 1875 to 696 million rupees in 1885; the exports increased in value in the same time from 580 million rupees to 852 millions. But there is great reason to doubt whether this growth of the trade is to any important extent due to the fall of exchange. It has been before said that there is what may be termed conclusive evidence that the rupee prices of the chief products of India have not sensibly changed in this interval except as might have been expected from known variations of the seasons. Most Indian agriculture is carried on under conditions which leave little room to doubt that the prices of such produce in the local markets approximate closely to the necessary cost of production. The really important change that has taken place is the reduction of the cost of transport to the ports of export, through the great extension of railways, and the simultaneous large reduction in the sea freights due to improvements in ships and marine engines, together with the almost complete removal of all fiscal burdens on trade. In this manner the necessary cost of delivering Indian produce in its foreign markets has been so greatly reduced as to have allowed of the export with profit, in constantly increasing quantities, even with the falling prices in those markets, that have accompanied the rise in the value of gold in relation to other commodities, including silver.

38. So far as the fall in the exchange value of the rupee is due to the appreciation of gold in relation to commodities generally, this fall can give no permanent advantage to persons trading with India, because the gold value of the rupee and of produce would fall together; and though the rupee could be got for less gold, the produce it would purchase would be less valuable in relation to gold, and to secure the same profit a larger number of rupees must be paid. It is therefore only by a fall in exchange not accompanied by a fall in the gold price of produce, such as might be caused by a sudden reduction of the price at which silver is sold for export to India, that a stimulus to trade would be given; there is no reason to doubt that such an action has from time to time taken place, and has had a considerable temporary effect, but this necessarily ceases as prices readjust themselves.

39. It follows, as a matter of course, that whatever stimulus to trade might have arisen under a continued fall of the exchange will be prevented if that fall can be arrested. But there is very good reason to expect that this will be far more than compensated by the advantages to be obtained by the introduction of foreign capital in India, and the additional facilities given by the improvement of the means of internal communication, and the reduction of the cost of transport, which are so essential to the continued expansion of the resources of the country.

40. The same general considerations will apply to the imports into India as to the exports from it. If prices remain unchanged in the world, a fall in the value of Indian produce will become less profitable to the producer, and the value of the foreign goods will become less the gold value of the Indian money. In many instances this is not the case, but it is clear that the general effect of the fall of the value of the rupee is to operate so beneficially in an expansion of the trade, though the general benefits in most cases. The known facts are thus sufficiently explained.

41. Any rise of the value of the rupee in relation to its value in silver that might be caused by adopting a gold standard as proposed would operate unfavourably to India in the trade with countries that continued to employ a silver standard, such as China and other States of Eastern Asia. For with any further fall in the value of silver in relation to gold the price of opium in the modified rupee currency would also fall, and the revenue from this source would be diminished, while the competition of Eastern Asia with India in the export of tea and rice would be facilitated, and the export of Indian cotton manufactures might also be placed at some disadvantage. The compensation for this must be sought through the means before indicated.

42. There are certain well-known objections to an inconvertible token currency to which the proposed measure would be open, so far as it tended to give that character to the currency of India. But, unless the relative value of silver to gold continued to fall seriously, these would not be of practical importance, and call for no prolonged discussion. That no real inconvenience is necessarily caused by an overrated silver currency is sufficiently proved by the example of the States comprising the Latin Union, in which the legal tender silver coins are current at a nominal value which is now not less than 30 per cent. in excess of their intrinsic value. It would probably be long before the intrinsic value of the rupee fell to this extent below that which it now has, and whenever it became certain that no improvement in the value of silver was to be anticipated, the inconvenience could be remedied by the introduction of legal tender gold coins, and the final adoption of a gold standard in its usual form, which in the event contemplated would be virtually necessary, the existing silver coins remaining as a subsidiary legal tender currency as in the Latin Union. The case of Italy also may be referred to, in which an intrinsically worthless paper currency for many years sufficed for the wants of that country with an amount of depreciation in relation to gold which is insignificant as compared to that of the rupee at the present time.

43. So long as the existing form, weight, and standard of the rupee remained unchanged, there is no reason to suppose that the people of India would become aware of the change, or entertain any objection to it, provided of course the rupee continued to be as heretofore the legal coin by which all obligations could be discharged. There is no country in which the risks from false coinage could be of so little importance, or the facilities for excluding false coins so great.

44. In conclusion, I submit that the proposed measure would meet the essential requirements of the case without causing sensible inconvenience or disturbance of trade, and would be simple in its application and efficacious in its results ; and I maintain that if objections are not found to be of a far more serious nature than those that I have been able to discover, or that have been raised against analogous proposals on theoretical grounds, there can be no justification for refusing to adopt it, excepting the substitution of some other preferable course which shall apply a complete remedy to the existing alarming condition of things.

XLIV.

MEMORANDUM BY MR. R. HARDIE, TREASURER AND SECRETARY, BANK OF
BENGAL, DATED 22ND MAY 1886.

The measure proposed by General Strachey, for giving India a gold standard of value, without discontinuing the existing silver coinage, is ingenious, but the necessity for adopting such a measure, or the merits he claims for it, cannot, I think, be conceded.

Since the fall in the value of silver began, Indian trade has increased to an extent never before experienced, and Indian finance has been so prosperous that large remissions of taxation were made two or three years ago.

It does not, therefore, appear to be consistent with the facts to affirm, as General Strachey does, that India is now placed in an intolerable position by the continued fall in the value of silver in relation to gold. No doubt there are difficulties attending the present position, and these difficulties may increase, but they are not likely to be by any means insuperable. General Strachey's measure on the other hand, if it alleviated certain existing difficulties, would probably land the country in other and greater difficulties.

If the adoption of a gold standard of value, as proposed, was decided upon, it cannot be doubted that a still further heavy fall in the value of silver would take place, and that India would then stand possessed of, and be acquiring a currency valued far higher than its intrinsic value, and which would be inefficient for payments abroad. Such a system of currency would favour imports of merchandise, and discourage export of merchandise, and might so diminish the balance of trade in favour of India that increasing difficulties would be experienced in meeting India's gold obligations. It is quite conceivable that it might so affect the balance of trade as to produce what might be termed a dead-lock in the Indian Exchanges, inasmuch as the Government of State might be unable to sell his bills on India, at the artificial rate of exchange established, to the extent necessary to meet his expenditure in England. The example to which General Strachey alludes of the States of the Latin Union, in which silver coins are said to be current at 30 per cent. over their intrinsic value is hardly analogous, as these States are on a gold standard basis, and are possessed of sufficient gold to make that standard effective.

Assuming, as a certainty, that one of the results of the adoption of General Strachey's measure would be a further heavy fall in the value of silver, it would follow that the Indian export trade on which the prosperity of the country mainly depends, would be seriously affected. India, in the competition with other silver producing countries, would be at a disadvantage. The measure would maintain a minimum value of 100 rupees per 100 rupees, but if silver fell to the value of only 1s. 3d. or 1s. per rupee, and other silver producing countries made the same adjustment as had been taken by India, but India did not, it would be freely as a result of it must be concluded that India, in the competition for export, would be at a disadvantage.

For example, if the value of silver fell to 100 per cent. of its intrinsic value, it would be impossible to doubt that an immense stimulus would

countries to the production of the commodities referred to, and that their production in India would be carried on under a great disadvantage. And, if this would be the case in regard to Tea and Rice, it would be also more or less the case in regard to all the other commodities which India exports, for it cannot be positively affirmed that she has, or will continue to have, the monopoly of the production of any article which appears in her export list. It is therefore to be assumed that commercial enterprise in India would be greatly discouraged by the existence of a system of currency which placed the trade of India under such a disadvantage as would result from charging a seigniorage, which might be 10 or 15 per cent. or more, on her coinage, and which seigniorage would in fact operate as a duty on all Indian exports. The consequences of such a state of things can hardly be over-estimated—instead of an expanding trade, there would be a declining trade with falling prices, and if the Government succeeded by the operation of General Strachey's measure in limiting what is called its annual loss on its gold payments, it would certainly suffer greatly in certain branches of its Revenue, and that probably to a greater extent than the advantage it had secured in respect of its gold obligations.

In the last 10 years exchange has fallen from 1s. 10d. per rupee to under 1s. 6d. per rupee without, it is believed, causing permanent financial embarrassment to the Government. Instead of additional taxation having been found necessary to meet the so-called loss by exchange, remissions of taxation were conceded in 1882 to the extent of about 3 crores of rupees per annum, while 1½ crores per annum have for some time been especially assigned from the Revenue for a Famine Reserve. It may reasonably be expected that this experience of a falling exchange as regards the past, will be repeated to some extent in the future, and that, if exchange should fall to even 1s. 3d. per rupee, under the present system of the Mints being open to the free coinage of silver that Government will receive under several heads of the Revenue, such as Railways, Stamps, Excise, and Salt, very considerable compensations as a set-off for the loss by exchange.

General Strachey says it may be freely admitted that it is a very extreme measure to interfere with an established currency, and that nothing but extreme urgency can justify it. The extreme urgency for the change he proposes lies, he affirms, in averting a recourse to what he terms dangerous measures of additional taxation. It may be urged, however, that General Strachey is disposed to much exaggerate the objections to additional taxation, and to ignore the circumstance that a declining exchange, or a fall in the value of silver, far more suggests the adoption of additional taxation than the adoption of some fundamental and far-reaching change in the currency of the country, the consequences of which for good or evil it is very difficult to foresee or determine. On the other hand, it can hardly be questioned that additional taxation is amply justified and can be imposed without injury to the community, under such circumstances as result from a fall in the value of the metal which forms the standard currency of the country.

The adoption of General Strachey's measure would, it is believed, result in a fall in the Indian prices of commodities, and in the contraction of Indian exports, and I think such a result must be viewed as being opposed to the best interests of the country. It appears to me that, but for its gold obligations, the Government could afford to view the fall in the value of silver with equanimity, if not with satisfaction, and the question therefore arises:—Is it really for the advantage of India, in order to minimise the loss on the Government's gold obligations, to take what General Strachey describes as the

imposed with the object of maintaining an exchange of 1s. 9d., it can be imagined that, with the Indian currency on such a gold basis, Indian trade would not have manifested that elasticity and prosperity which have been its characteristics in recent years. In view of that conclusion it may be assumed that a measure which now fixed the exchange at a minimum of 1s. 6d. might be as unadvisable as the measure to fix it at a minimum of 1s. 9d. would have been.

In conclusion I would observe that the whole position of India, as a nation, in regard to the silver question, may be stated broadly as follows. The foreign trade of India consists of exports of merchandise and imports of merchandise: the exports pay not only for India's gold obligations abroad, but for her imports of merchandise as well, and a balance always remains in her favour. This balance she takes in silver. If silver is cheap, she gets more of the metal than she would get if it were not so cheap, and I hold that it is most to her advantage to get more, than less silver. It, moreover, appears obvious that the pressure of the gold payments upon India as a whole depends not upon the price of silver, but upon the gold prices realized for the merchandise exported to meet such gold payments. That the Government is in the position of receiving its revenue in silver, it may be asserted, does not affect that, the national, aspect of the question, and in my view it is, therefore, clearly the duty of Government to meet any financial necessity arising from a fall in the exchange, either by increasing taxation or by reducing expenditure, or by both. To attempt to meet the difficulty by taking the extreme measure of changing the standard of value is, I think, out of the question, and I express this view, holding the opinion that the value of silver will probably yet fall considerably.

XLV.

MEMORANDUM BY MR. J. WESTLAND, COMPTROLLER AND AUDITOR GENERAL,
DATED 24TH MAY, 1886.

In noting upon the subject of General Strachey's Memorandum, I shall try to confine myself to the particular question he raises without touching more general ones, which are equally implied in the discussion. For General Strachey assumes what it is quite possible that he may have elsewhere discussed, but what he gives no reasons for in this Memorandum, that a gold standard is *per se*, for India, preferable to a silver one—a proposition which I consider an extremely doubtful one. I am inclined rather to say that greater facility in meeting its home obligations is the *only* interest that India has in a gold standard; and, if a silver standard is better with respect to all its other relations and concerns, I cannot concede that the question connected with its home obligations is of such tremendous importance as to overwhelm all others. The fact that we European officials, regarding our connection with India as only temporary, look to the gold standard of the country, where we ultimately intend to live, as preferable, for our own sake, to the silver standard of the country where we earn our living, is sufficient to apt to increase in our eyes the importance of remittance from India to England. But if we meant to stay in India all our lives, and our children after us, as the infinite majority of people dwelling in India do, I doubt if we would look upon a manifestly appreciating standard as more desirable than one which has been fairly steady in the past, so far as absolute value can be measured, and which, if anything, is likely to depreciate in future. To lead to a general rising of prices and of wages. I believe that the introduction of an appreciating gold standard into India, by its direct effect in reducing our revenues, would in all probability lead to the creation of much greater difficulties than any arising out of the exchange.

However, the immediate question I wish to take up is not what the precise effects would be of the proposal made by General Strachey, than whether these effects are in themselves desirable or the reverse; and here I think that General Strachey in his Memorandum confines his attention too exclusively to the immediate effect of his proposal upon the *rate* of remittance, and does not take into consideration the effect of the new conditions upon the *amount* of remittances which the state of trade makes available.

Taking the three parties concerned in the matter—India on the one side, the nation on the one side and England on the other, with the Secretary of State (the Secretary of State) intervening between them in the manner thus described. India has a certain amount of gold and silver, and is also under an obligation to pay a certain amount of taxes, an amount of silver which is sent to the Secretary of State. On the other side, the Secretary of State has a certain amount of gold and silver, and a certain amount of business to do in India. The Secretary of State has a certain amount of gold and silver, and a certain amount of business to do in India. The Secretary of State has a certain amount of gold and silver, and a certain amount of business to do in India.

- (2) her requirement of silver, in silver bullion;
 (3) debts due by the Secretary of State and payable in India in silver.

Of these receipts, she exchanges No. (1) against the imports she requires, and No. (3) against her obligation to pay the taxes above described.

Now, suppose that the value of gold as measured in silver and other goods becomes enhanced. So far as operation No. (1) is concerned, the exchange between imports and exports will remain the same in quantity, though the intermediate stage, the expression of the common value in bills payable in gold, will be smaller. As regards operation No. (2), India will also get the same quantity of silver for the same quantity of exports. But as regards operation No. (3), the debts are greater in value and India must export more—that is, she must press her exports in order to make up the requisite amount. She might indeed, by putting a tax on imports, put an obstacle in the way of operation No. (1), and thus drive a larger amount of her exports into channel No. (3); but leaving an import duty out of account, the object can be accomplished only by her becoming able, either by cheaper methods of production, or by a change in the rate of exchange, which will give her more silver for the same price paid by the consumer, to increase the amount of her exports, and by consequence the amount to be paid to her in all three forms put together.

Now this cheapening of the exports of India, so far as the consumer is concerned, occurs, *ipso facto*, by the mere rise of the value of gold, and we may, therefore, after such a rise, expect the exports naturally to increase enough to give rise to the necessary demand for the purchase of the additional amount of debts due by the Secretary of State. This effect may not immediately reveal itself in the case of a fall in the value of silver, because the fall of silver has, first of all, to be translated into a rise, with reference to commodities generally, of the value of gold; but this is the form in which the compensation does come, and it is the form in which, during the last ten years, it has continually been coming.

But now suppose that the Government decrees that, as all the silver coming to be paid in exchange for exports in the course of operations No. (3) and No. (3) has to pass through its hands, it will take away a part of it, and pass out to the exporter only the remainder. There is now an obstacle in the way of operations (2) and (3), and since Government appropriates part of the payment made through these operations, but on the assumption of there being no import duty appropriates no part of the payment made through operation No. (1), commerce will be more and more driven into that channel, and imports will be increased. Moreover, as the value of exports is, to begin with, greater than that of imports, the necessary result of their being driven into exchange with each other will be that the imports will tend to enhance still more in price than in quantity, and exports on the contrary will diminish still more in price than in quantity; thereby still further diminishing the balance of trade which has to seek payment through operations (2) and (3).

But still another effect will follow. Experience shows us that the importation of a certain quantity of silver, through operation No. (2), has been accompanied by comparative stability of prices in India; and it follows that the cessation of that importation will directly lead to a fall of prices. And a fall of prices operates to discourage production, and consequently to diminish exports, especially when, as in the case supposed, it is carefully prevented

from reaching the consumer, and influencing him towards increase of consumption. So that not only the primary but also the secondary tendency of the proposed operation is a reduction of exports. And a diminution of exports has serious consequences, not only to the nation itself as a trading country, but to the accounts of Government directly through its relation to the Treasury.

It seems to me, therefore, that the result of General Strachey's plan will be to create even greater difficulties than at present exist in the hands of the Secretary of State with remittances. That supply requires, for its condition, the existence of a certain balance of trade; and the proposed method goes directly to diminish that balance of trade. In fact, General Strachey argues throughout as if the only competition with Secretary of State's bills was that of silver offering in London, and he finds, therefore, that the imposition of an artificial burden upon that commerce in silver necessarily comes in an advantage to bills. But the truth is, that there is a third competitor for the exports, namely, the merchant who tenders to India an equivalent in imports; and as his operations are unaffected by the artificial enhancement of the price of silver in India, he will merely step in to occupy the ground vacated by the Secretary of State and the tenderer of silver. And India, as a whole, instead of getting for her present amount of exports both her present amount of imported merchandise and her present amount of imported silver, and the discharge of some 14 or 15 millions of sterling obligations, will find that her production of exports falls off, and that the account of value she receives in return for them is only a little bigger in the matter of value of her merchandise, and is miserably smaller under the two other heads.

I would point out in conclusion that it follows from my argument, if it is a correct one, that part at least of the remedy for present difficulties is to be found in the imposition of an import duty. The present value of exports of India which is paid for through what I have called operation No. (1) is much larger than the other two parts put together. The effect of an import duty will be to diminish this first part of the exports, by driving over a certain quantity into channels Nos. (2) and (3); and even a small proportional decrease in this first part may cause, by its transference, a comparatively large proportional increase in the amount that gives rise to the demand for silver and for Secretary of State's bills.

XLVI.

MEMORANDUM BY MR. D. BARBOUR, SECRETARY TO THE GOVERNMENT OF INDIA, DEPARTMENT OF FINANCE AND COMMERCE, DATED 11TH JUNE, 1886.

Lieutenant-General Strachey proposes to alter the monetary standard of India from silver to gold, retaining, however, a silver currency.

A change of standard is at any time and in any country a very serious question; and a change to a gold standard involves special risks at the present moment, when gold prices have largely fallen and when there is reason to fear they may continue to fall.

The objections to an over-valued metallic currency are of special force in a country like India, which differs widely in its economic and political conditions from European countries.

It is therefore incumbent on the Government of India to examine closely the grounds on which Lieutenant-General Strachey proposes so great a change.

2. The ultimate cause of the evil which Lieutenant-General Strachey's proposal is intended to remove is the instability of the relative value of gold and silver, the tendency being for silver to fall and gold to rise.

The evils which are caused by the instability in the relative value of gold and silver, and by the continuous rise in the relative value of gold, are the following, so far as regards India:—

- (1) The Government of India, having obligations payable in gold and a revenue payable in silver, finds it necessary to pay away an increasing number of rupees to meet its gold obligations.
- (2) European officers of the Government of India suffer from a somewhat similar cause.
- (3) The fluctuations in the relative value of gold and silver add to the uncertainties of commerce between India and countries with a gold standard.
- (4) The continuous fall in the value of silver relatively to gold impedes the flow of capital from countries with a gold standard to countries with a silver standard.

3. I shall notice, in the first place, the last three of the evils enumerated in the preceding paragraph; but before doing so, I wish to call special attention to a fact which is of the utmost importance in connection with the question of a change from a silver to a gold standard.

Simultaneously with the fall in the relative value of silver, there has been a heavy fall in the gold prices of commodities, while the silver prices of commodities have remained much closer to the same level. It is not necessary to speculate on the causes of this fall. It will be sufficient for our purposes to recollect that there has been a fall in gold prices and that silver prices have remained much nearer their old level.

Thus, though it is quite correct to say that silver has fallen relatively to gold, it would be equally correct, and it would obviate some very erroneous impressions if we accustomed ourselves to say that gold had risen relatively to silver.

4. As regards the European officers of Government serving in India, it

* A writer in the *Statist* of 20th February last estimates that the saving in England from fall in prices is as follows : -

Income.	Saving.
£ 100 per annum	16 $\frac{3}{4}$ %
£ 500 ditto	11%
£ 1,000 ditto	7 $\frac{1}{2}$ %

The estimate is, avowedly, a very rough one, and there is no saving in the cost of education, which is the chief burden on Anglo-Indian officials.

may be observed that they get some compensation* for the fall in the relative value of silver by the lowering of prices in England; that they cannot expect to be entirely relieved from the effects of that depression which has in various ways affected many of their countrymen in England to an extent which is equally serious; and that, even if the fall in ex-

change should lead to additional expenditure by Government in connection with them, the total amount will not be very great.

The fluctuation in the relative value of the two metals adds to the uncertainties of commerce; but this evil cannot be very injurious to India, as her commerce has grown far more rapidly during the period that this disturbing cause has been at work than at any previous time. Silver prices have been maintained at about their former level while gold prices have been falling, and so far as regards trade and commerce, the countries with a gold standard seem to have suffered most.

Nor is the difficulty connected with the check on the flow of capital towards silver countries one of vital importance. Although countries with a silver standard have to accept the risk of borrowing in gold, yet they get some compensation in the form of lower interest, and, as a rule, it is optional with them to borrow or not, so that they are not absolutely bound to contract gold liabilities.

5. Looking then to the evils which have been enumerated under heads (2), (3), and (4) in paragraph 2, there are not sufficient grounds to justify the alteration of the standard in a vast empire like India, and especially the adoption of what appears to be an appreciating standard; still less is there sufficient ground for having recourse to a gold standard with an overvalued silver currency.

If there is sufficient justification for the proposed change, it must be looked for in the increasing burden which is thrown on Indian finance owing to obligations having been already incurred in gold, and owing to the political difficulties which lie in the way of imposing additional taxes to meet the additional burden.

In dealing with this aspect of the question, the first step is to ascertain what the additional loss really is.

6. It is sometimes said that the loss to Government is the amount shown as exchange in the public accounts, and consequently that the loss to Government was estimated at Rs. 4,83,76,000 for 1886-87; but this belief is not correct, and the loss to Government is not, in any sense of the term, so much as is supposed.

I will take in the first place an extreme case,—that of an officer who receives in England the equivalent in sterling of 1,250 rupees, which is fixed in rupees. When exchange is two shillings to the rupee, he receives £500 sterling, and nothing is shown in the accounts. When the exchange is 1s. 6d. per rupee, the officer receives only £125 (really Rs. 1,250) is shown as exchange.

In the latter case, it would be commonly said that Government had lost Rs. 1,250 by exchange; but there has really been no loss to Government, the payment in each case having been the exact sterling equivalent of Rs. 5,000 at the exchange of the day.

A similar remark applies to all leave allowances fixed in rupees but payable in England, unless in certain cases when there is a maximum or minimum fixed in sterling.

Again, if the Government incurred debt on the 31st of March to the amount of £6,000,000 sterling bearing interest at the rate of 3 per cent. per annum, the charge for interest would be entered in the accounts at £180,000, and there would be an entry of exchange at £80,000 (really Rs. 6,00,000) if the rate of exchange during the year were 1s. 6d. per rupee, and this sum of Rs. 6,00,000 would be commonly spoken of as loss by exchange; in reality there is no such loss. The Government has borrowed £6,000,000 sterling, equal to 8 crores of rupees, and pays as interest £180,000 sterling equal to 24 lakhs of rupees.

But if the Government borrowed money when the rate of exchange was 1s. 8d. per rupee, and if the rate should afterwards fall to 1s. 6d., there would be a loss, which, however, should be measured, not by the difference between an exchange of 1s. 6d. and 2s. per rupee, but by the difference between 1s. 6d. and 1s. 8d.

Thus, if £10,000,000 sterling is borrowed at 4 per cent. per annum when the rate of exchange is 1s. 8d., the interest charge is £400,000 sterling and the exchange is Rs. 8,00,000: as soon as the rupee falls to 1s. 6d., the exchange becomes Rs. 13,33,000, and the real loss from the fall in the gold value of the rupee is the difference between Rs. 13,33,000 and Rs. 8,00,000, or Rs. 5,33,000. To take the figure of exchange entered in the accounts as the real loss to Government involves in this case an error of no less than Rs. 8,00,000. In fact, the figures entered in the public accounts under the head 'Exchange' are merely the numbers which must be added to the figures representing gold payments in order to get figures which represent the value of these payments estimated in silver, and they are not, and do not purport to be, the figures of the real loss to Government due to the fall in the relative value of the rupee.

Moreover, the Government can borrow in gold at a lower rate of interest than it can borrow in silver, and the rate of exchange must fall considerably below the rate of the time of borrowing before the real loss by exchange balances the gain from borrowing in gold rather than in silver. The Government in such cases deliberately balances the gain in rate of interest against a certain amount of loss owing to the fall in the value of the rupee, and takes the risk.

7. The argument which I have applied to the nominal loss by exchange in the case of borrowing applies with equal force to contracts made with Railway Companies. The real loss is not to be measured by the difference between the exchange of the day and an exchange of Re. 1=2 shillings, but by the difference between the rate of exchange of the day and the rate of exchange of the time when the contract was made with the Railway Company.

Nor do I think that in the case of expenditure for the purchase of stores, we should take into account any loss by exchange. The Government knows what the gold price is when it decides to purchase a certain commodity, and it knows what the rate of exchange is, and consequently it knows the amount

of rupees it will have to give; and it gets the commodity for the price in rupees which it knew it would have to pay. If it does not like the price, it need not purchase the article. No doubt, if the rate of exchange were 2 shillings per rupee and the gold price of the commodity did not alter, Government would pay fewer rupees than when the rate of exchange was 1s. 6d. per rupee. But I do not see how in such cases we can fairly omit to consider the gain due to the fall in the gold prices of commodities, and yet treat as loss the fall in the gold price of silver.

As a matter of fact, the gold prices of commodities have fallen more than exchange has fallen, and Government now gets English stores for fewer rupees than it used to pay when the rate of exchange was 2s. the rupee. The Director General of State Railways has kindly furnished me with figures which illustrate this portion of the case, but I shall quote only a single instance, and that by no means the most remarkable. In 1872 a ton of iron girders of a certain class cost the Government of India £17-10 in England; in 1885 the cost was only £10-5.

8. I have mentioned the facts stated in the preceding paragraphs simply with a view to indicating the real dimensions and nature of the burden imposed on the Government of India by the continuous fall in the rate of exchange, and not with any intention of making light of that burden, or of attempting to prove that no special efforts need be made to find a remedy. Even after every item of fictitious loss has been deducted and every allowance made for the fall in English prices, the magnitude of the burden is of a very serious character. When a large and sudden fall takes place, the finances are temporarily disorganised, and if a heavy fall occurred at a time when the finances were seriously strained from other causes, the financial difficulties that would arise might prove a source of positive danger.

9. The growth of the Indian revenue since the fall in exchange began has been very great, and such as nobody could have anticipated; but it must necessarily be a matter of doubt whether the next ten years will be marked by equal financial progress, and the recent sudden and heavy fall in exchange has come upon us while the finances were being severely taxed to carry out a system of famine and frontier railways, and at a time when the defence of the empire demanded an increase of military expenditure. But great as our present difficulties are, I think that, in the absence of any adverse influences, they can be surmounted by a judicious management of expenditure, by deferring improvements in the administration, and by the introduction of taxation of a character to which there are no insuperable objections on political grounds, at least so far as India is concerned. In 1882 the Government remitted taxation to the amount of 300 lakhs; no portion of this taxation has since been reimposed, and the political objections to reimposing it derive their force rather from public feeling in England than from any feeling in India; nobody can wish to see the salt duty, which is the only tax on the production of the import duties is open to many objections: it can be imposed without causing any strain worth counting against the Indian population, and if Her Majesty's Government were to struggle with the salt monopoly, it would have to exercise a wide latitude in the taxation of the Indian people. Even if the Government were to impose an additional taxation to the extent of 2½ crores of rupees annually, the burden on the country would be no heavier than it was in 1872, a year of remarkable prosperity. India has undoubt-

severe financial pressure, owing to the fall in the relative value of the rupee, but the difficulties to be encountered can, so far as it is now possible to foresee them, be met by economy and taxation. If, however, war, famine, or a great fall in the opium revenue should occur before our immediate difficulties had been surmounted, the gravity of the position would be immensely aggravated.

After all, my contention comes to no more than this, that the difficulties which lie immediately before us can be surmounted by ordinary financial measures, though such measures may require the country to make great sacrifices and postpone important improvements. We are not driven by a force which we cannot control to adopt heroic remedies or try dangerous experiments.

10. Lieutenant-General Strachey's proposal is intended to guard the Government against the effects of a fall in the value of silver relatively to gold, such fall being due either to a rise in gold or a fall in silver; and his method of effecting his purpose is by a manipulation of the Indian currency. Now, as has already been shown, the loss to India from the relative fall of silver arises from the fact that India has in past years engaged to pay away every year in England a certain amount of gold. India can only obtain this gold by offering in exchange for it the produce which she exports. If the gold prices of her exports are high, a less quantity will purchase the necessary amount of gold; if the gold prices are low, she will require to give a larger quantity. The loss or gain therefore to India, as distinguished from the Government of India, in respect of her permanent gold obligations depends entirely on the gold prices which she can obtain for her exports. No manipulation of the Indian currency can possibly affect the gold prices of Indian exports, and therefore General Strachey's proposal could in no case give any relief to India as a country, whatever effect it might have on the financial position of Government. Just as much as Government gained, just so much must the Indian people lose.

11. Lieutenant-General Strachey's scheme is essentially a proposal to charge a varying seigniorage on the coinage of rupees in such manner that the cost of a rupee to the tenderer of silver for coinage would be $\frac{3}{5}$ of a pound sterling, assuming that the rate of exchange to be maintained was 1s. 6d. per rupee.

At present the rupee contains 165 grains of fine silver. Under the proposed scheme, it would still contain the same amount of fine silver; but if the rupee fell relatively to gold—and this is the one result against which Lieutenant-General Strachey wishes to guard, and his proposal is unnecessary unless the rupee is about to fall—it would cost more than 165 grains of fine silver, because the tenderer of silver for coinage would be required to tender, not merely 165 grains of fine silver for each rupee, but a certain amount of gold as seigniorage. Let us then assume that silver fell relatively to gold to such extent that it required 165 grains of fine silver *plus* an amount of gold worth 33 grains of silver to obtain a rupee, or in other words that it required 198 grains of silver to purchase one rupee, and trace what the effects would be. I shall show, hereafter, that it would probably be found impossible for some years to maintain the rupee at 1s. 6d., but for the sake of argument it will be assumed that the measures proposed by Lieutenant-General Strachey have been adopted, and that the exchange is thereby maintained at 1s. 6d. per rupee.

12. The revenue of Government for our purposes may be divided into two classes. There is the revenue which is fixed for ever, or for a long period, at so many rupees, and there is the revenue which is the result of bargaining. The permanently settled revenue is a perfect example of the one class, and the price paid for Bengal opium of the other class. If the revenue has been fixed permanently at so many rupees, each containing 165 grains of silver, and we say that in future the rupees must, practically, contain 198 grains of silver, we simply say indirectly that everybody who has hitherto paid Re. 1 to Government on account of permanently settled revenue shall in future be required to pay Rs. $1\frac{1}{5}$. The burden of the permanently settled land revenue would be increased by 20 per cent, and the burden of all land revenue settled for a period would be similarly increased until the close of that period.

But as regards all revenue which is the subject of bargaining, the result would be different. Let us take the case of Bengal opium, which is sold to the highest bidder and is bought mainly for the China market. China is willing at present to give, say, Rs. 1,200 for a chest of this opium, but it is on the understanding that the rupee contains 165 grains of silver; in other words, China is willing to give 198,000 grains of silver for a chest of opium. If you say that the rupee shall be equal to 198 grains of silver instead of 165 grains of silver, you will not thereby induce the Chinaman to give more than 198,000 grains of silver. The only result will be that you will get 1,000 of the higher rupees instead of 1,200 of the lower rupees.

Consider, again, the case of Malwa opium, on which a fixed duty of Rs. 650 per chest is charged. If the rupee is to be of the value of 198 grains of pure silver and not of 165 grains, this fixed duty is practically raised by 20 per cent, and becomes equivalent to a charge of Rs. 780 of our present rupee. But Malwa opium could not at present bear a charge of this amount, it would be necessary, instead of charging Rs. 650 of the new rupees per chest, to reduce the duty to Rs. 542 of the new rupees.

In the administration of the Excise Department the Government has made attempts to raise the maximum revenue without either increasing the duty or giving rise to serious smuggling.

The maximum revenue is in this case the maximum amount of silver that can be obtained in exchange for certain privileges, and we shall get the same amount of silver whether we coin it into many or few rupees. The amount of silver that the public will give depends on the public, and it is the same to them whether they give us so many pieces of metal each of the value of 165 grains of fine silver, or a fewer number of pieces of metal each of the value of 198 grains. In the case of the export duty on opium, the duty is fixed by the Post Office, Telegraph and Railway and India Act, 1854, and the proposal of Lieutenant-General Strachey's proposal would increase the charge we now make by 20 per cent.—a measure which the Government at present without having recourse to the extreme measure of altering the standard.

13. The expenditure of Government for a number of years may be divided into three categories:—
 Assignments, Pensions, and other charges payable in silver.
 For the purpose of this classification the portion of this which is payable in silver.

If we altered the value of the rupee from 165 grains of fine silver to 198 grains of fine silver, we should increase the burden on the tax-payer in respect of all public expenditure fixed for a term of years by 20 per cent, because the number of rupees to be paid away would be unchanged, while each rupee would be one-fifth more valuable than before. The net charge for interest on silver debt of all kinds in 1886-87 is Rs. 4,18,52,000. The increased burden on that amount would be Rs. 83,70,000 in our present currency; the increased burden on the tax-payer to meet the expenditure on Assignments and Compensations and Territorial and Political Pensions would be about Rs. 89,00,000, while the increase on Civil, Military, and Public Works salaries payable in rupees would be simply enormous. The aggregate of these salaries exceeds 21½ crores annually at present, and the additional charge would be Rs. 4,35,00,000; of which, however, a portion might be recovered by reducing salaries. The additional charge for Opium also would be about Rs. 40,00,000 a year though possibly a corresponding reduction could be made in time, and at the cost of much discontent. All these extra payments, as well as others which I have not enumerated, would have to be taken from the tax-payer in one form or another; and the tax-payer would pay not merely any future loss, due to exchange falling below *is. 6d.*, on the gold obligations of the Government of India, but an increase on all the permanent silver liabilities of Government of exactly the same magnitude.

14. The facts of recent years show that the silver standard is well suited for India in every respect, except in so far as she has incurred gold obligations; and, save as regards this matter of permanent gold obligations, India with her silver standard appears to me to be much better off than those countries which have got a gold standard.

I cannot therefore find sufficient justification for Lieutenant-General Strachey's proposal, unless it be held that a further fall in exchange would be immediately followed by a corresponding rise in silver prices of all commodities in India of at least an equivalent amount. Of this there is no proof, and in my judgment no likelihood. The fall in exchange has hitherto been followed by a fall in gold prices, not by a rise in silver ones.

15. In the preceding remarks I have dealt with the effects of the proposed change on the public finances, and on all persons who had to pay money to, or receive money from, Government. But the effects of the change would extend far beyond this area. All contracts made in the past would be equally affected by it, and the burden of all contract payments, as well as of all payments which, though not fixed by contract, are determined by custom rather than bargaining, would be increased by 20 per cent. Take the case of a Tea Planter. He would receive for his produce exported to Europe one-sixth fewer rupees than he would otherwise have done. But he would have to pay away just as many rupees as before on account of any money he had borrowed, on account of his land revenue, and, for a considerable time at any rate, the same amount of rupees on account of wages, fixed salaries, and rent.

Until prices and wages had adjusted themselves to the new state of affairs, the effect on the tea industry would be the same as a heavy export duty of probably not less than 10 or 12 per cent, and the process of adjustment would involve ruin to the present race of tea planters, unless simultaneously there should occur a corresponding increase in the quantity of silver exchangeable for tea. There has not been any such increase in the past, and there is no reason to anticipate it in the future.

16. The simple facts of the case are that the Government of India has contracted permanent obligations which compel it to provide some 14 millions sterling in gold every year, that the gold prices of Indian products have fallen, that it consequently takes a larger quantity of Indian products to buy the necessary amount of gold every year, and that India as a country cannot receive any benefit in the matter unless the gold prices of her commodities should rise, or she should be able to produce them more cheaply. Lieutenant-General Strachey's plan would not raise the gold prices of Indian commodities, and so far from enabling them to be produced more cheaply, might very seriously, and perhaps disastrously, hamper and clog Indian industry.

If it be said that the scheme is not intended to benefit India but only to save the Government from financial difficulties, I would reply that it is difficult to separate the interests of India from those of the Government of India, and that the fact of the Government of India placing itself in a position in which it has to find, at an increasing cost, £14,000,000 sterling a year, appears to me a very insufficient justification for interfering by an arbitrary act with all Indian contracts, public and private, in the hope that the Government of India, as the result of the disturbance of all its contracts involving the receipt and payment of rupees, would reap a net advantage which would cover the loss on its gold obligations.

I do not know what the aggregate yearly amount of the contracts that would be interfered with may be, but it is immeasurably greater than the amount of the fixed gold obligations of the Government of India.

It is one of the canons of taxation that the amount received by the Government should be as nearly as possible the amount taken from the pockets of the tax-payer, but the form of taxation now being considered involves not merely indefinite and arbitrary taxation, but an unexampled increase of expenditure, a violent interference with all contracts, and a disastrous dislocation of industry. It is difficult to believe that any measure could permanently improve the financial position of Government, while it would certainly be injurious to the country.

17. The effects of introducing Lieutenant-General Strachey's scheme may be illustrated by assuming that it had been adopted when the rupee was equal to two shillings, that it had been successful in raising the rupee to two shillings and considering what our present position would have been. I will also assume, for facility of calculation, that the subsequent fall in exchange was only to 1s. 6d. the rupee.

In the case assumed, and which is very nearly what has actually happened, the value of the rupee would have been raised from 100 grains of silver to 220 grains, and every tax-payer whose revenue was assessed in rupees would now have been paying to Government exactly one-third more than he actually pays. The burden of all permanently settled land revenue would have been increased by exactly one-third. The land revenue of Bengal which had been fixed for a long time at Rs. 100 per acre would have been Rs. 133 per acre. Bengal opium would be Rs. 900 per catty. The duty on the Malwa opium export duty would be Rs. 100 per catty. The fact that we should long have had a duty on rice would be four annas per catty, and the tribute by Native States would have been 10 per cent. The Post Office, the State and Guaranteed Railways, and the Indian Government charge fixed sums for rendering certain services; if the rupee had

artificially kept at two shillings, all these charges, though nominally the same, would really have been increased by 33 per cent if the falling off in revenue had not necessitated a reduction.

On the expenditure side of the account we should have been paying away the following extra sums, measured in existing rupees, besides other amounts which I have not taken the trouble to calculate :

	Rs.
Extra burden on account of Interest	1,40,00,000
Extra burden on account of Assignments, Compensations, and Pensions paid in India	1,10,00,000
Extra burden on account of fixed Salaries	7,25,00,000
TOTAL	<u>9,75,00,000</u>

This enormous sum of 9 $\frac{3}{4}$ crores, and more, must have been taken every year from the tax-payer, and generally would have been taken from the tax-payer whose tax was fixed, and who had the best right to assume his tax would not be raised.

And while this sum would have been paid away unnecessarily every year, the country, as distinguished from the Government, would not have been saved one rupee on the real cost of her gold obligations, because the gold prices of Indian products would not have been affected, while there would have been a disturbance of all private contracts to the extent of 25 per cent, and a fall of 25 per cent in the rupee price of Indian products. This disturbance of contracts and fall in prices must have had a disastrous effect on Indian industry, and would have greatly favoured the competition of countries with a silver standard. The gain of the various Native States interlaced with British territory and still maintaining a sound metallic standard would have been very great.

So vast a disturbance of the economic condition of India would have very materially increased the difficulties of governing the country. The gain of Government in the form of seigniorage would, from the reasons stated hereafter in paragraph 19, be of no considerable importance.

18. The figures which I have given as illustrating what would have been the effect of establishing a gold standard in India when the rupee was equal to two shillings will give some idea of what the effect has been in England of maintaining the gold standard under the altered conditions of modern times. England, fortunately for herself, has been, so far, better able to stand the disturbance than India would have been, and she gets some compensation owing to the fact that large sums are payable to her yearly in gold by foreign nations.

The Government of India has contracted gold obligations amounting to about 14 millions sterling yearly, and the extra cost in rupees of meeting this obligation is shown separately in the Indian accounts and falls in the first instance on Government; it has therefore attracted attention, but the yearly gold payments of England on account of her debt alone amount to 28 millions sterling, or twice the total gold obligations of India. The English tax-payer raises that sum by the sale of English produce, and owing to the fall in gold prices he suffers a loss in this item alone fully twice as great as the total loss by exchange that falls on the Government of India, and ultimately on the people of India, though he gains as compared with the Indian tax-payer in so far as the money is not taken out of the country.

So much of that loss as is due to the fall in prices caused by greater efficiency of labour and improved means of production is nominal, but the very same cause reduces the loss in the case of India, a portion of the fall in gold price, for example, being covered by the cheaper cost of transit from the interior of India to England. I mention these facts to show that India is not the only country that loses by the fall in gold prices. The loss of countries with a gold standard is immeasurably greater, though, as it cannot be shown in separate figures in the public accounts, it attracts less attention. For India to adopt the appreciating gold standard with a view of avoiding loss by exchange would be to pass out of the smoke into the fire.

19. There are also some minor points which deserve notice.

The closing of the last great mint which is open to the free coinage of silver would probably have disastrous effect on the market price of silver, and would thereby tend to aggravate existing difficulties. We know how sensitive the silver market is, and the effect of the announcement that the Indian mints were to be closed to the free coinage of silver might lead to a panic. It is quite possible that the divergence between the intrinsic and the nominal value of the rupee might become so great as to make it difficult to maintain the artificially appreciated currency.

20. I also doubt very much if the exchange value of the rupee could for some years be maintained at 1s. 6d., or at any other rate that might be chosen as being the market rate of the day. Large quantities of rupees are coined every year, but all the rupees that are coined at the Indian mints are not added to the active currency of India. Every year rupees are coined to make silver ornaments, are hoarded in the form of coin, or strung to be used as ornaments, or exported to foreign countries or Native States. Good authorities have held that the amount of rupees in the active circulation does not exceed one-fifth or one-sixth of the total amount of silver in India, and of the amount held outside the active circulation a very considerable proportion is held in the form of rupees fit for circulation. The net yearly addition to the active currency is in my opinion very much less than is commonly supposed, and when a heavy seigniorage began to be charged, not a single rupee would be coined at the Mint that was not required to replenish the active currency. It is probable that the total amount required for this purpose would not exceed 1½ crores yearly, and it might prove to be less.

And for a long time any necessary additions to the active currency would be met by rupees flowing back from Foreign and Native States, and by the bringing forth of long hoarded rupees.

The Indian peasant may be content to hoard rupees so long as their intrinsic and their nominal value do not greatly differ, but when he finds that he could purchase for his rupee a considerably larger quantity of silver than that contained in the rupee, his tendency would be to part with the rupee and substitute the uncoined metal.

If the indispensable additions to the active currency could be met by silver as small as there is every reason to believe them to be, and if for a long series of years be met by rupees flowing back from Foreign and Native States and brought forth from the interior of India in the form of silver. During all this time the rupee would be maintained at its present value at the Indian mints; and as the rupee is the only form of silver currency of the Indian States, there would be no guarantee that he would

get so much as 1s. 6d. per rupee, or any other rate that had been chosen. So long as silver was not brought for coinage at the Mint, it would be evident that a rupee could be obtained more cheaply in the market than by tendering silver at the Mint and paying a seigniorage, and the Secretary of State could never sell his bills at any rate better than that current in the Indian market. It is in the last degree improbable that exchange would rise to 1s. 6d. until the active currency of British India had absorbed all rupees that are now held outside it, and until, notwithstanding such absorption, there had been such a contraction of the active currency, relatively to the work it had to do, as to make it profitable to bring silver for coinage notwithstanding the seigniorage charged by the mints.

XLVII.

MINUTE BY HONOURABLE SIR AUCKLAND COLVIN ON GENERAL STRACHEY'S MEMORANDUM, DATED 6TH JULY 1886.

I have studied, with all the attention which it demands, the Confidential Memorandum, dated 31st March, by General Strachey, forwarded to us under cover of the Secretary of State's despatch No. 115, dated 22nd April 1886. I have shown it confidentially, with the consent of His Excellency and the Council, to certain members of the mercantile and banking community, and I have obtained the opinions of the Secretary in this Department and of Mr. Westland, the Comptroller General. The opinions so obtained are submitted with this Note. I feel no doubt that those who have been asked to advise us on the proposed measure have done so with a full sense of the great importance of the issues concerned; and further, with the feeling that any proposal of this kind deliberately put forward by a member of the India Council of the eminence and experience of General Strachey imperatively requires the most impartial examination. Like those whom I have consulted, I have been constrained to arrive at conclusions which, to my mind, render the adoption of the scheme proposed to us inadmissible; and I shall in this paper to state as clearly as I can the reasoning which compels me to dissent from the expediency of applying the proposed measure.

2. The case is very well summed up in para. 7 of the Memorandum, in the following paragraph:—

"It may at once be freely admitted that it is a very extreme measure to interfere with an established currency, and that nothing but extreme urgency can justify it. Therefore, before taking any step in this direction, a very careful comparative examination of the gravity of those evils which, on the one hand, are likely to be produced by the proposed measure, and, on the other, those which will arise, if no change is made, is necessary."

Three points are here put forward for consideration: First, that nothing but extreme urgency can justify partial restriction of the currency in India; secondly, that very careful comparative examination of the evils which are likely to be produced by (a) a change in the direction suggested, and (b) by continuance of the policy of inaction. The Memorandum does not, however, enter into any discussion of the first and third points. It postulates, if I rightly understand, the existence of extreme urgency, and also the comparative disadvantage of inaction; and goes on to show that action in the direction proposed is desirable, and is, in fact, the only course. It is, however, impossible for me, when engaged in a discussion of the expediency of adopting the proposed measure, to discuss the comparative advantages of the points in turn. I propose, therefore, to discuss the comparative advantages of the proposed measure, and, secondly, to discuss the comparative dangers of interference or non-interference.

3. In respect, first, of urgency. Nobody can possibly question the existence of extreme injury to which our finances are subjected by the depreciation of the exchange. It must not, however, be forgotten that in 1873, at the end of the year, the Government of India found itself in a state of financial embarrassment in the value of silver. Then, as now, the Government of India was before the Government of the 13th October 1873, and the Government of India before the Government of India "a time of financial difficulty, the issue of which cannot at present be foreseen." Now, as then,

“whatever other measures may be taken hereafter, our immediate duty is plainly to curtail all avoidable expenditure, and to develop to the utmost our existing resources.” The record of the measures adopted in 1886 is but the echo of the words with which, in 1876, the Government of India of that day announced its policy :—

“We are accordingly engaged upon enquiries in all departments of the Administration as to the possibility of organic reductions of expenditure, and, as you are aware, have already taken stringent measures to reduce current expenditure and to increase the productiveness of such branches of our revenues as are susceptible of improvement.”

Since then circumstances have occurred which have rendered the present situation of the Government of India in some respects more embarrassing than in 1876. The recommendations of the Famine Committee have been placed before the public, and it has become the imperative duty of this Government to attempt, in conformity with the recommendations of the Parliamentary Railway Committee of 1884, to give substance to them. The course of events upon our North-Western Frontier has compelled us to add considerably both to our capital and our ordinary expenditure; so that in both these respects it is impossible to doubt that our position is less favourable than in 1876. On the other hand, we have now resources in reserve which at that time did not exist. We have, in the first place, the great and growing development of our Railway revenue; we have, also, the equivalent of the remissions effected in our salt duty in 1882; and if, on the one hand, we have reimposed an income tax, the import duties are now on the shelf; and, however difficult it might be to reimpose them, they afford, in case of ultimate necessity, an unquestionable reserve of revenue. We have, finally, to the credit side of our account the million-and-a-half at present annually devoted to the Famine Insurance Grant, which in 1876 was not available. So that I would not be inclined to say that the urgency of the present position was, on the whole, greater than in 1876, when the fall in silver had been even more serious and sudden than the late fall: and had found the Government of India less familiar with this class of financial difficulty, and therefore more susceptible of panic and less informed by experience of the nature and the elasticity of the resources at its disposal. Nevertheless, the Government of Lord Northbrook declined, in 1876, to accede to the recommendations of the Bengal Chamber of Commerce, having for their object the artificial regulation of the currency. The subsequent recovery of the finances, which admitted in less than five years later of large remissions of taxation, fully justified the decision of the Government.

4. I do not wish to be betrayed, in my desire to guard against the opposite extreme, into taking too sanguine a view of what, at the best, is unquestionably a most unsatisfactory financial situation. It will not, I hope, on the other hand, be objected to me that in the Budget Statement of this year I held language, when speaking of the urgency of the present financial situation, which is irreconcilable with what I now say. I purposely dwelt in that Statement as forcibly as I could, on the extreme uncertainty introduced into Indian finance by the oscillations of silver. I spoke of the effects of this uncertainty as being in many ways prejudicial; and I dwelt in subsequent paragraphs on the fact that the uncertainty of silver entirely neutralises the most carefully-formed plans for the future and that the most prudently-prepared calculations may be upset in a few days (as in fact they were within a few days of the publication of the Budget) by causes over which the Government of India are entirely powerless. I also drew prominent attention to the fact that a sudden fall in silver might swallow up more than the sum of

economies which the Government had achieved in consequence of a similar previous fall. The uncertainty and oscillation of the silver market was the main source of difficulty which it was my object to emphasise. I did not complain that we are without resources, but I insisted and repeated that we are without the means of ascertaining the extent to which at any moment our resources are required. My object was, and is, to assist in awakening public attention to the necessity of taking steps for the establishment of a fixed ratio between gold and silver, because, all other considerations apart, I believe it to be a measure essential to the stability of Indian finance. It is impossible to exaggerate the uncertainty introduced into all our calculations by the uncertainty in the value of silver, and it was to illustrate this that I addressed myself. With regard to the commercial community, this point of uncertainty is equally the *crux* of the situation. This has been well brought out at the annual General Meeting of the Bengal Chamber of Commerce held on the 20th May last by one of the speakers (Mr. McCaw), who spoke as follows:—

“But in these arguments it appears to me that the fact is, to a great extent, that what the trading community, whether exporters or importers, is chiefly of exchange. What is interfering with business and rendering all mercantile operations so very speculative at the present time is the great uncertainty attaching to exchange. The violent fluctuations which have been experienced in rates during the past four years have rendered it quite impossible for any merchant when entering into a transaction to know approximately, what the result of such transaction would be. This does not depend on exchange is high, or because it is low, but by reason of its great variability. The risks of risk in the conduct of a business in an ordinary way are great enough without being added to them, and anything which would render the relations of the metals, gold and silver, as measurements of value, fixed, whatever might be the ratio, would be most welcome to all those engaged in international trade. There is no doubt about the fact that the present state of affairs in exchange is operating much to the disadvantage of the country, preventing the flow of British capital for either permanent investment or for the purchase of land in the country; and, even further, it is causing the withdrawal of capital from the country because of the fear that, if not taken away now, it may have to be taken away at a much lower level. Were there any stability attaching to rates of exchange, it would at once be altered. No matter at what level rates might be fixed, it would be a matter to a British capitalist whether he sent his money out to this country at 1s. 10d. or 1s. 12d. rupee, provided he felt certain of getting it back at or about the rate at which it was remitted.”

I have now before me an extract from the proceedings of the Calcutta Chamber of Commerce of the 23rd instant, in which I find a speaker who disagrees with the bimetallic theory, nevertheless strongly supporting Mr. McCaw's contention which might, it will be seen, *mutatis mutandis* be applied textually to the financial condition. Mr. Forbes Adam, in a paper appended to this Note, writes in almost identical terms:—

“I may further add that at no time during the last few years has there been absent from the hearts of the trading classes the same uncertainty as to the value. The unsteadiness of exchange during the last few years has rendered the business calculations of the merchant very uncertain, and the result has been a quiet and inactive state of business. It is a well-known fact that a more rooted conviction of the value of the rupee would long ago have been loud in its demands for steadiness would long ago have been loud in its demands for a fixed ratio.”

The reason for which I demand a fixed ratio is, that it is necessary to make it clear that when speaking of the value of the rupee, we mean our urgency compared with the value of the standard as shown by the market. It is a position is than in any other country. At a given moment, a sum of money is required for our expenses, and we are exposed to unforeseen calamities, such as famine and war, I demand a fixed ratio.

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a position extremely urgent in the sense that we are approaching the immediate limits of our resources, but a condition of finance which is essentially unsound because based on an unstable standard. To remedy such a condition is, doubtless, important ; but of importance in quite another sense from the urgency which would compel us to adopt otherwise indefensible measures in order to avert impending insolvency. I am not unmindful of the consideration that a measure the result of which would be to prevent further fall in exchange might possibly assist in facilitating a settlement of the silver question when the time for settlement arrives. The means proposed, however, are, in my judgment, too violent for this end ; but I reserve what I have to say on this part of the subject for a later part of this Note.

5. As, in face of the recent fall and the present condition of silver, the views I have above expressed may seem questionable, it may be well, in a few words, to explain what, as the Member of this Government responsible for the finances, my conception of the position is. Briefly it is this : that looking at a normal condition of affairs, during the years 1884 and 1885, with the rupee estimated in the respective Budgets of 1884-85 and 1885-86 at *1s. 7½d.* to *1s. 7d.*, arrangements based on those which in 1882 had been made by the Government of Lord Ripon secured equilibrium ; that on the eve of the present year, with the rupee at *1s. 6d.*, with the addition to our revenues of the income tax and of a sum taken from the Provincial balances not more in amount than that which at the approaching revision of contracts will be added to imperial revenues, our annual resources again might reasonably be expected to prove sufficient to meet our annual expenditure ; and that in the ensuing year, should the rupee then be taken at *1s. 5d.*, the absorption into our ordinary Budget of revenue and expenditure of a portion of the Famine Insurance Grant, combined with the results of the economies now being enforced, will (extraordinary emergencies, such as famine or war, apart) maintain equilibrium. I need not at present go into the calculations by which I arrive at this latter conclusion ; but I may say generally that the large addition in the last three years to our opium reserve, the probable increase to the Imperial revenues consequent on the revision of the Provincial contracts and on the other enquiries now in course of execution, the normal growth of our revenues, and the impetus given to our Railway revenues by the increase of our exports, form the basis upon which I hold the belief that, for the immediate present, no more drastic measures are likely to be required to meet our increased difficulties than those which I have above indicated. But I shall be told that if the rupee has fallen in less than a year from *1s. 7d.* to less than *1s. 5½d.*, it may similarly fall again before many months are over to *1s. 4d.* or *1s. 3d.* I think, *à priori*, that it will be conceded that, so far as past experience guides us, the fact of the recent heavy fall renders a further immediate considerable fall the more unlikely. Should such fall take place, we have the balance of the Famine Insurance Grant, and we have also the other reserves which I have indicated. Unwilling as I should be to add one farthing to the present taxation, the balance of the Famine Insurance Grant, which will remain after the amount which we propose now temporarily to absorb, and the raising of the salt duties, assuring, as they would, an increase between them of about £2,000,000 to our revenue, are in the event of a further serious fall in exchange unobjectionable and legitimate items of reserve, to the adoption of which no valid objection of principle could be taken. I venture, further, to think that if there is to be considerable continuous fall in silver, the consequences in Europe, and in England more particularly, will be so grave that

we shall no longer be left, as at present, to eke out by the absorption of our own resources the annual increase to our revenues necessary to meet the consequences of such a fall. A further rapid fall in silver must, in my judgment, produce a further serious fall in the price of wheat in England, and entail upon the land-holding and agricultural interests consequences of the most vital nature. The same cause will, on the other hand, impede the increase or even the maintenance of the present imports into India of English manufactured goods. Already it seems to be obvious that the effect upon the prosperity of English commerce and agriculture of the appreciation of gold, and the constant disturbance in the ratio of that metal to silver, is producing in the public mind of England a very marked impression. When it is said that "the experience of the last eight or ten years has made it clear that relief cannot reasonably be expected under a policy of inaction," I think that too little importance is given to the growing recognition in England during the last year or two of the consequences of inaction, not indeed to Indian but to English interests. Finally, though it is useless perhaps to look far forward, especially in Indian finance, yet in considering this question of urgency and of the future that lies more immediately before us, it is not prudent to lose sight altogether of the fact that the revision of the settlements of land revenue both in the North-Western Provinces, in the Punjab, and in the Central Provinces has in some districts already recommenced, and in others is on the eve of commencement. The addition to our revenues from this source in the next five years will not prove inconsiderable, and will increase in an increasing ratio for many successive years. The considerations strictly fall within the limits of this section of my Note, but I might perhaps also here observe that no moment could be more unfortunate for any measure the effect of which would be to introduce uncertainty into the prices of agricultural produce in India than the eve of the commencement of our land revenue. The argument may be held equally applicable to the establishment by international agreement of a fixed ratio between gold and silver, which we of the Government of India advocate. I admit that the eve of an epoch of resettlement would be a very undesirable moment for the introduction of any measure which was certain to lower the prices of our agricultural produce; but in the latter case the effect would be at least partially counteracted by being based on fixed and stable data. I give below a list of the settlements in the North-Western Provinces, in the Punjab, and in the Central Provinces which will come under revision of settlement during the next five years, and the years in which the present settlements should be revised. It is the duty of the Revenue and Agricultural Department to insure, as far as possible, the continuity of the revised settlement from the dates given:—

NORTH-WESTERN PROVINCES.	}	Dehra	.....
		Bulandshahr	.....
		Saharnpur	.....
		Basti	.....
		Muzaffargarh	.....

CENTRAL PRO- VINCES.	Raipur	1885-88
	Bilaspur	1888
	Chanda	1885-89
	Jubbulpore	1887
	Sambalpur	1888
	Mandla	1888-89

6. I hope I have now said enough to show what are the grounds on which, in my judgment, the extreme urgency, which alone, as is admitted by General Strachey, can justify the adoption of his proposed measure, does not, so far as the financial position is concerned, exist at present in a greater degree than in 1876, when the adoption of an analogous measure was considered and declined by the Government of India. For what may be still thought by some to be the sanguine view taken in this Note of our present position and immediate prospects I must, of course, accept the responsibility. That view is based on the experience which I have acquired during the administration of the finances in the last two-and-a-half years ; and is, I admit, strengthened by the conviction that the material interests of England and India have, by the special experience which is being acquired in this matter, been proved to be so inextricably mixed together that causes which injure one must eventually react on the other, and that this truth is becoming by daily experience more and more forced upon the observation of those engaged in England in making a special study of the currency question, and of the general public. I will not touch at present on the question of urgency as regards our commerce, partly because that belongs to another part of the subject, and partly because I think it will be admitted that the proposed measure is conceived in the interests less of Indian commerce than of Indian finance. If I have established my first point, making against extreme urgency in respect of our finances, the primary justification for the introduction of the measure proposed, by which the propriety of its adoption must in the first instance be tested, cannot be conceded. So far as concerns urgency, in regard to the necessity for placing upon an assured and stable footing our standard of currency, and thus putting an end to the uncertainty which weighs so heavily on us, I have nothing but concurrence to urge. Urgency, on the other hand, in the sense of the immediate necessity for adopting a measure which is admitted to be very extreme in order to prevent imminent catastrophe to our finances, cannot, in my opinion, be shown to exist.

7. I pass now to the second head which requires examination, namely, the comparative advantages of inaction or of action. What is to be said upon the latter point is fully stated in the letter of the Secretary of State for India to the Treasury, dated 26th January, 1886, and in our letter to the Secretary of State, dated 2nd February, 1886. The advantages of any measure which would procure for our monetary standard stability in relation to gold are unquestionable ; not, from my point of view, because they would prevent any imminent catastrophe, but because they enable us to proceed with a reasonable feeling of security when adjusting our expenditure against our revenues. What we have to consider now is the price at which these advantages are to be bought ; in other words, the considerations which tell against the course of action proposed in General Strachey's measure. There are three points of view from which that action is to be criticised : First, so far as concerns received principles governing questions of currency ; Secondly, in regard to the effect of such a measure upon the Indian tax-payer ; Thirdly, with regard to the

effect of such a measure upon Indian trade. In respect to the first point, it will be seen that at page 8 of his Memorandum General Strachey writes :—

“There are certain well known objections to an inconvertible currency, to which the proposed measure would be open so far as it tended to give that character to the currency of India. But unless the relative value of silver to gold continued to fall seriously, these would not be of practical importance, and call for no prolonged discussion.”

Now with regard to this, I must observe that, in the first place, the grounds on which the proposed measure is put before us are that it is necessary to find some remedial measure releasing us from the position in which we are now placed “by the changes which have taken place, and appear to be still likely to take place, in the relative values of gold and silver operating through the different currencies of England and India.” The growing instability of the relative value of gold and silver is the *raison d'être* of the proposal before us. The whole purport and aim of General Strachey's proposal, as I understand it, is to guard us against the effects of a further serious change in the relative values of gold and silver. To dismiss therefore the objections alluded to in the Memorandum as of no practical importance unless the relative value of silver to gold continue to fall seriously, seems to me to be inconsistent with the object with which the Memorandum was written. I may point out, further, that nothing would conduce so seriously to a further change in that relative value as the adoption of a measure closing to the coinage of silver, except on presentation of gold, the only great mint which, at present at least, is open unconditionally to that coinage. The objections to an inconvertible token currency cannot therefore, in my judgment, be reasonably regarded as inapplicable to the scheme before us. On the contrary, that scheme immediately raises them; and the more operative the scheme is, the greater, as it seems to me, would be the force of the objections. I shall not be expected to enter here into a discussion of the principles underlying these objections, and I may be allowed to urge that it is not for those who uphold, but for those who attack, received principles of currency to establish their case. If those principles are, in any given case, inapplicable, they must be shown to be so. I will content myself here with restating them in the terms in which upon a previous occasion they have been formulated in connection with a somewhat similar proposal. In their reply dated the 24th November, 1879, to the proposal made by this Government to the Secretary of State for India, in our despatch of November 9th, 1878, the Lords of the Treasury, among much which to my mind is questionable, laid down one axiom, the soundness of which I believe to be indisputable. The proposal then before them was to bring back the value of the rupee to two shillings, whereas at present the object aimed at is to prevent the value of the rupee falling further, but the objection contained in the following words applied equally to either proposal. “The objection,” they wrote, “is in fact contrary to the essential and well-established principle of the currency law of this country, which regards the coin as a piece of coined metal of a certain weight and fineness, and condemns as futile and mischievous every attempt to alter that definition. It is perfectly true, as stated in the Report of the Committee, that the very essence of all laws relating to the currency has been its fixity to the standard of value as far as it is possible, but it is equally true that according to the principles which govern our currency the surest and surest way, and indeed the only tried and known way, of securing that fixity is to adhere to the above definition of current standard coin. The only way is a given quantity of gold : a rupee is a given quantity of silver : and

attempt to give these terms a different meaning is condemned by experience and authority." In connection with the objections which may be brought against an artificially valued currency, the case of the Latin Union is instanced in the Memorandum, in regard to which it is said, "that no real inconvenience is necessarily caused by an overrated silver currency is sufficiently proved by the example of the States comprising the Latin Union." But the illustration does not seem to me to be in point. In the Latin Union gold as well as silver is a legal tender; and although the free coinage of silver is suspended, the currency is, practically, bimetallic. Silver is exchanged for gold at a fixed ratio; gold circulates freely and in large quantities as the standard; and the objections which seem to me to militate so strongly against General Strachey's proposal, that the standard and the currency have no necessary relation, and that the currency will be practically inconvertible, is inapplicable. A case very closely in point would be that of Java, in regard to which we are at present engaged in enquiry. We have before us no recent information in respect of the working of the measures by which, in 1873, a standard was introduced in Java, and its silver currency reduced to the position of a token currency; but, so far as at present we have means of information, I believe I am correct in saying that the results have not been such as to encourage us to proceed in the same direction. Nor again, in view of the attitude of Belgium at the time of the recent renewal of the Latin Union agreement, can I admit that it is accurate to quote example of the States comprising that Union as furnishing proof that no real inconvenience is necessarily caused by an overrated silver currency. "The essential object of a currency law," it is argued again, "is to give stability to the standard of value in all transactions and to give equal protection to both creditors and debtors." This is true; but it must be a stability extending to all transactions, whether foreign or domestic. Currency laws are not for home use only; nor is the stability which they aim at expected to be attained, if they rest on a basis which is wholly independent of the intrinsic value of the metal of which a currency is composed. I do not see, again, how the proposed measure could give equal protection to both creditors and debtors. The modifications in our currency law now under examination might, on the contrary, profoundly affect the position of all who are debtors, and in proportion to the increase in the appreciation of gold, the burden on the debtor would become greater. The same causes which are operating in Europe, and are causing such disturbance in the relative situation of creditor and debtor, would be introduced into India. The proposal is analogous to what might have been put forward in 1863, when, owing to the depreciation which at that time existed in gold, economists were casting about for means to correct the evils with which the world seemed threatened. In a paper republished in his volume entitled "Investigations in Currency and Finance," the late Professor Jevons, writing in 1863, estimated the extent of the depreciation which had already taken place as approximately 15 per cent, and was inclined to think that the fall would be arrested at, perhaps, 30 per cent. There were authorities who at that crisis proposed to demonetise gold and to adopt a silver standard; and it is not, I venture to think, out of place to ask ourselves now what would have been the probable result of adopting such a measure.

8. My conclusion, therefore, so far as I have now discussed the proposal before us, is, that neither on the grounds of urgency nor in view of the principles which govern questions of currency is it desirable or defensible

to impose restrictions on the free coinage of silver in our Indian Mints. The introduction into India of a gold standard as distinguished from the introduction of a gold currency presents to my mind objections to which I see no adequate answer. I can perceive no permanent stability in a standard which is not represented by current legal-tender coin of that standard composed of full metallic value.

9. Further objections as to the difficulty of maintaining the rupee at *1s. 6d.*, and the injury to the credit of the Government should it find itself again compelled to adjust the standard, I will not more than allude to. Mr. Barbour has shown in his note that the former possibility is by no means out of question. Nothing would be more fatal to our credit than the suspicion of lying under the obligation of periodically adjusting our currency to our financial needs; and I think it should be unanswerably shown how, if we once enter upon the path of adjusting our standard to our requirements, we are to avoid the risk of being compelled, in spite of ourselves, to go further in the same direction.

10. I come next to the bearing of the measure in its relation to the Indian tax-payer and to Indian trade. On neither of these points is it necessary for me to dwell, because they have been fully discussed in the papers which are circulated with this note. This is, in fact, the special point of view chiefly taken in these papers. Without committing myself to all that is there argued, I think it may be said that two points are clearly brought out: the first that the burden of the proposed measure on the Indian tax-payer might (should gold continue to appreciate) be excessive, and might increase in proportion as the measure operated; the second, that its effects upon Indian commerce—especially upon the chief agricultural industries in India, might be injurious. It is impossible not to recognise the force of these objections as to regard the danger which they contemplate as so remote as not to be worth considering. No one can question that as gold appreciated the value of our Indian produce would fall; and that in proportion as the value of produce fell, the burden on the Indian tax-payer must increase. Nor would he be relieved in any degree by the measure proposed from the additional burden at present imposed on him by the fall of the rupee to *1s. 6d.*; so that the tax-payer would have to continue to bear the burden which he already bears in order to enable Government to meet the cost of its remittances to England, and, in addition, the further burden entailed upon him by the fall in the value of his produce. If gold appreciated, Indian industries would be in a degree menaced; the trade in tea, especially, would be injured, our revenues, our export trade, our indigenous and our manufactures, the industries carried on by Englishmen in India would alike suffer. This, if I rightly understand, is admitted in the eighth page of the Memorandum, and seems to me inconsistent with the expectations of the Government in placing of English capital in India which, among other things, are the grounds for the scheme, are cited as a strong recommendation in its favour.

11. I hope that I have now sufficiently shown why I cannot give my concurrence to the measure before us. I have examined it with prejudice: for, apart from the weight which is due to its authority, and toward by its author, to me, certainly not less than to any other person, which came in an acceptable form would be a great improvement. I see how, even supposing that our circumstances were such as to require them to be, we could adopt and put into execution a mea-

My own belief is that what we should aim at is, by taking the fullest advantage of the present fall in silver, to force upon English experience the conviction that the maintenance of a single gold standard, owing to the economical results attending its progressive appreciation, must in English interests be abandoned ; and that the commerce of this country and of England cannot be carried on with advantage to either, so long as the metal which forms the standard of the currency of one country is regarded by the other in the light of a commodity only. The present condition of silver, injurious as it is to us, is full also of danger to English and European industries. I believe, therefore, in spite of the assurances to the contrary which for the present we receive from official sources in England, that our wisest course lies in taking full advantage of the low price of silver to increase our exports, a policy with which the measure put before us is inconsistent, rather than in the adoption of artificial methods of maintaining the gold value of the rupee, the consequences of which to many English interests would be rather favourable than otherwise, and to ourselves might prove extremely prejudicial. I do not wish to be understood thereby to contend that the present state of silver, because it enables us to increase our exports, is favourable to Indian commerce. The extracts which I have given show what are the views of some of the most experienced of those who are interested in our commerce. Whatever advantage may be gained by the existence of a higher range of prices in India than would otherwise obtain may be put to the credit of the present condition of silver. But the uncertainty which surrounds all commerce between India and Europe must be placed in the other scale. That uncertainty must, I believe, increase so long as the relations between gold and silver are left to the chances of the market. What I am anxious to point out is that, while both we and England suffer from this uncertainty, the result on the whole of cheap silver is peculiarly prejudicial to England, because it enables India to depress prices of English agricultural produce and places increasing obstacles in the way of the export of English manufactures. Therefore as I believe that our true remedy lies in obtaining concerted action with England, I would take no measure of which the result would be to obstruct the increase of our exports, or to diminish the disabilities of the English importer. In the protection of its own manufacturing and agricultural interests, the Government of England, if we persist in this policy, will, I believe, should gold continue to appreciate, be compelled, in concert with us, to take measures to regulate the ratio of the standards through the medium of which the common trade of the two countries is carried on. I see nothing in our present financial position, as I have endeavoured in the earlier part of this Note to explain, which should hinder us from continuing to persevere in seeking this solution of the silver difficulty.

XLVIII.

DESPATCH FROM THE GOVERNMENT OF INDIA, TO THE SECRETARY OF STATE FOR INDIA, No. 68, DATED 23RD MARCH, 1892.

We have the honour to forward, for Your Lordship's information, a copy of the correspondence,* noted on the annexed schedule, with the Bengal Chamber of Commerce, in which the Chamber enquires what we propose to do with reference to the heavy fall in the value of the rupee which has followed on the fall in the price of silver in the United States.

2. Your Lordship is aware of the anxiety with which we regard this question, and of its high importance in our estimation as affecting the interests of India. We have, at various times, for instance in our letters No. 45 of the 2nd February 1886 and No. 277 of the 4th September 1886, fully expressed our views on the subject, and it is unnecessary to repeat them here. But we desire to say that the violent oscillations in the price of silver since 1890 and its rapid decline during the last year to the lowest point yet reached cause us, as they have caused the mercantile community, the gravest anxiety for the future.

3. We are desirous, as we have always been, of aiding in the settlement of the silver question by International agreement, and if proposals should be made by the United States or by any other Government for the holding of an International Conference, we trust that Your Lordship will lend those proposals your strongest support.

4. In our opinion it is not open to question that if International agreement is not arrived at, the United States Government will sooner or later be driven either to the adoption of a silver standard or to abandonment of its purchases of silver. It is certain that the cessation of the purchases by the United States could not fail to depress still further the price of silver metal, and the policy to be followed by India in that event deserves the most serious consideration on an early date.

5. The stoppage of the coinage of silver by the United States will probably, if it should come, come suddenly, and if we defer until it has taken place the consideration of the measures which in that event it may be expedient to adopt, we shall find ourselves unprepared and left with no time for due consideration.

6. We are, therefore, of opinion that the subject should be considered in all its bearings beforehand, and we recommend that, in view of the action of the United States in the future, Her Majesty's Government should now take into consideration the question whether any, and if so what, policy can be adopted for the protection of Indian interests against the decline in the gold value of the rupee to which, for the reasons above given, we may be at any moment exposed, and the view should be taken of the relative value of gold and silver to which, under present circumstances, we cannot assign any limit either in time or in amount.

* Not printed in this vol

XLIX.

DESPATCH FROM THE GOVERNMENT OF INDIA, TO THE SECRETARY OF STATE FOR INDIA, NO. 160, DATED 21ST JUNE, 1892.

In our Financial Despatch No. 68, dated 23rd March 1892, we requested Your Lordship to lend your support to any proposals that might be made by the United States of America, or by any other country, for the settlement of the silver question by International Agreement. At the same time we called attention to the probability that, failing an International Agreement, the United States would be forced to stop the purchase and coinage of silver, and we requested that Her Majesty's Government, in view of this contingency, should now take into consideration whether any, and, if so, what, measures could be adopted for the protection of Indian interests.

2. Since that Despatch was written we have learnt with satisfaction that Her Majesty's Government have accepted the invitation of the United States to take part in an International Conference to consider measures having for their object the more extended use of silver as currency, and that Your Lordship agrees with us in the importance of Indian interests being properly represented.

At the same time we cannot overlook the strong opposition to the introduction of the system of double legal tender into Great Britain that has been manifested in certain quarters, and we observe with regret that the Conference has been summoned to consider the question of the more extended use of silver as currency, and not for the purpose of considering the adoption of an International Agreement for the free coinage of gold and silver, and the making of both gold and silver coins legal tender at a definite and uniform ratio.

3. We fear that a refusal on the part of Great Britain to adopt the system of double legal tender may be fatal to an International Agreement for the free coinage of both gold and silver, on a sufficiently wide basis, and we believe that a limited increase of the quantity of silver used as currency will exercise a very trifling influence (if any) in raising, or preventing a fall in, the gold price of silver, while it will be wholly without effect in the far more important matter of preventing fluctuations in the relative value of the two metals. We greatly regret this state of affairs, both because we believe that no other country is so deeply interested in, or would benefit so greatly by, a uniform standard of value throughout the civilised world as Great Britain, with her vast system of trade and the great extent of her finance, and because the final rejection of an International Agreement for free coinage of both gold and silver will leave this country face to face with a problem of the greatest difficulty.

4. If the forthcoming International Conference fails to arrive at a satisfactory decision regarding the silver question, we apprehend that it will very soon be necessary for the United States to decide either to accept a silver standard, or to abandon the purchase and coinage of silver on a scale in excess of what is required to keep up the necessary subsidiary coinage.

If the United States abandon the attempt to maintain the use of silver as standard money, there must be an immediate and very great fall in the

price of silver, which would re-act on the Indian exchanges and increase indefinitely the rupee burden of our sterling obligations.

The recent fall in the rate of exchange has already imposed upon our finances a burden which we shall have some difficulty in meeting, and we cannot contemplate without dismay the prospect of another fall of indefinite amount, attended no doubt with great and sudden fluctuations in the gold price of silver, and to be followed possibly by further falls in the future.

It must also be remembered that, if the present conditions continue the pecuniary difficulties of the Government of India will not be limited to the loss by exchange. The fall in silver causes distress to a very large number of our European officers of all services, but especially of the army, who have to remit money to their families in England. This distress is rapidly becoming acute. It has been borne hitherto with great patience. But, in the case we have just supposed, we shall, unless the efficiency of the service is to suffer, find it necessary to satisfy, in a reasonable manner, claims involving compensation to a large amount.

5. We have carefully reviewed all the circumstances of the case and we desire to place on record for Your Lordship's information our deliberate opinion that if it becomes evident that the International Conference is unlikely to arrive at a satisfactory conclusion, and if a direct agreement between India and the United States is found to be unattainable, the Government of India should at once close its Mints to the free coinage of silver, and make arrangements for the introduction of a gold standard.

In arriving at this conclusion we have been mainly influenced by a consideration of the fact that the abandonment of silver by the America would involve the perpetuation of all the evils from suffered during the last twenty years, and possibly their aggravated form, unless steps are taken for the establishment of a gold standard.

We believe that public opinion in India is ripe for the decisive measures, that the stoppage of the free coinage of silver is generally approved, and that we might safely count on receiving able assistance from the commercial and banking classes in introducing a gold standard.

6. We forward as an enclosure to this Despatch a Minute of our Honourable Colleague Sir David Barbour, which gives an outline of the measure he would propose to adopt for the introduction of a gold standard in India if such a measure should become necessary. It will be seen that we support the proposal to stop the free coinage of silver if the Conference and a direct agreement between India and the United States is found to be unattainable, but that he would adopt that measure as soon as it is evident that the United States will not adopt the free coinage of silver.

7. Our Honourable Colleague Sir A. Miller fears that if any measure is deferred until it is known to what conclusion the Conference will come, the effect of such knowledge on the silver market will be such as to make it then too late to act with effect. Failure on the part of the Conference to arrive at a satisfactory conclusion will find the Government of India in a very much worse position for introducing a gold standard than it has not in the meantime taken steps to prepare the way by an arrangement on which it coins silver for the public, than it is at present. He thinks that measures ought to be taken at once which would enable the

Government of India to close its Mints against silver at any moment, and to introduce a gold standard if and whenever, from the course of proceedings at the Conference or otherwise, they may deem it desirable to do so.

• . . . We desire to call Your Lordship's attention to paragraph 133 of Part II of the Final Report of the Gold and Silver Commission and to suggest that, failing an International Agreement, it may be possible for India and the United States to come to a direct agreement as to coinage of silver . . .

. . . We are of opinion that the time for a merely academic discussion of the problem is past, and urge that a determined effort be made to settle the question by the adoption of practical measures.

8. It may, perhaps, be desirable to make known at some stage of the proceedings of the Conference our views regarding the introduction of a gold standard into India. But this question, as well as the question of the expediency of India negotiating directly with the United States of America, as suggested in our telegram * of 19th May, may stand over until the Conference has assembled and the Representatives of India are in a position to report what the prospects are of a satisfactory solution being attained.

L.

MINUTE BY THE HONOURABLE SIR DAVID BARBOUR, K.C.S.I., DATED 21ST
JUNE 1892.

In dealing with the currency of British India it is necessary to draw a distinction between the active rupee circulation and the total number of rupees in existence. A large proportion of the rupees issued from the Mints and not melted down are kept as permanent hoards and fulfil none of the functions of money. This distinction cannot, however, be sharply drawn, as rupees are always liable to pass from hoards into the active circulation and *vice versa*. What I call the active rupee circulation may be held to include all the rupees which at some period of each year are used as money.

The total active rupee circulation has recently been estimated at **Rs. 115,000,000.**

Without accepting these figures as more than an approximation to the truth, they are sufficient to show that a gold standard with a purely gold currency is impossible in India. To establish a gold standard in India with a full legal tender currency composed entirely of gold it would be necessary to withdraw from circulation about 1,150 millions of rupees, to melt them down and sell them for what they would fetch as silver bullion, and then to replace them by about £77,000,000 worth of gold.

In the present conditions of India and of the silver and gold markets this would be an impossible operation.

Moreover, a gold standard with a purely gold currency of full legal tender coins would not suit India (even if it were possible to introduce it), because the gold coins would in practice be of too great value to suit the vast majority of Indian transactions.

2. It follows from what has been stated in the preceding paragraph, that if we are to have a gold standard in India, a large proportion of the circulation must consist of silver coins, and these coins must be a legal tender to any amount. The example of France and other countries shows that it is possible to have a gold standard although a large percentage of the circulation consists of overvalued silver coins which are legal tender to any amount.

In order that the gold standard may be effective a limit must, however, be placed to the number of such coins and they must be convertible into gold coins, either without payment of premium or on payment of a trifling premium, whenever any person wishes for gold coins in exchange for silver coins.

So long as the silver coins are freely exchangeable for gold coins in accordance with their face values the gold standard is effectively maintained.

3. I have no doubt that even with a gold standard the people of India would in almost all their transactions prefer to employ silver rupees. It is improbable that a gold coin of less than Rs10 in value would be issued in India, and such a coin would be quite unsuited for ordinary transactions. Rupees 10 represents, generally, much more than a month's wages for a cooly, and if a cooly received his wages in the form of a single gold coin he would immediately exchange it for smaller coins. We could not pay our soldiers or police in gold coins. Payments to the opium cultivators could not be made in gold neither could the ryots pay their rents in gold.

There would, also, be a not unreasonable dread among the common people that gold coins might be of light weight, they would be unwilling to accept them, and for monetary purposes in ordinary transactions they would hardly be used. This would be the case, I believe, even if gold coins of value of only Rs5 each were issued.

4. It may, then, be taken for granted that with a gold standard the great bulk of the Indian currency must continue to be silver rupees, and that, for monetary purposes, there would ordinarily be no considerable demand for gold coins in exchange for silver. On the contrary, the demand for monetary purposes would rather be for silver coins in exchange for gold coins. Gold coins would only, as a rule, be required in exchange for silver coins, when gold was required for hoarding, for export, or to be melted down for ornaments.

It follows that with a gold standard India would require, and would use, a very large amount of silver rupees, and would neither require nor use a large number of gold coins.

Any gold coins that were put into circulation, and were not melted down or hoarded, would very quickly find their way into the hands of Bankers and dealers in bullion, into the Government Treasuries, and into the Paper Currency Reserve.

5. For the purpose of introducing a gold standard into India we might stop the free coinage of silver, adopt measures for accumulating a store of gold, and when what was considered a sufficient stock of gold had been obtained, we might open the Mints to the free coinage of gold, make gold coins a legal tender, and guarantee by means of our accumulated stock of gold the exchangeability of silver for gold coins according to their face values. I do not recommend this plan; the accumulation of a sufficient store of gold would be a measure too expensive for a country situated as India is, and when it had been accumulated and the exchangeability of the silver coins for gold coins had been guaranteed by means of it, there would be a very great risk of the whole stock of gold being drawn away in exchange for silver rupees. If this should happen, and I think it would happen unless our stock of gold was very large indeed, the gold standard would cease to exist, and we should find ourselves exactly where we started.

6. The only measures for the introduction of a gold standard into India which seem to me feasible are the following:—

- (1) The first measure would be the stoppage of the free coinage of silver. Government would retain the right of purchasing silver and coining it into rupees.
- (2) The next measure would be to open the Mints to the free coinage of gold. Any man bringing gold to the Mints would be entitled to have it coined into gold coins which would be legal tender to any amount. It would be desirable to stop the free coinage of silver some time before opening the Mints to the free coinage of gold. It would be a valuable guide to us in subsequent proceedings to know exactly what effect the stoppage of the free coinage of silver had on the gold value of the rupee.

The new gold coins might be a 10-rupee piece and a 20-rupee piece.

7. The weight and fineness of the gold coins to be issued from the Mint would be such that the par of exchange between them and the sovereign would be the exchange which it was desired to establish between India and England.

For example, if we wished the rupee to be worth 1*s.* 4*d.*, the ten-rupee coin would contain as much gold as was worth (1*s.* 4*d.*) \times 10 = 160 pence.

The quantity of fine gold in the 10-rupee piece would be $\frac{1}{4}\frac{6}{10}$ tins or $\frac{2}{3}$ rds of the quantity contained in the sovereign.

8. The question of the ratio at which we should change from the silver to the gold standard would require careful consideration.

We ought not to think of going back to the old ratio of 1 to 15½. Neither ought we to adopt the very lowest price to which silver may have fallen at any time, or to consider ourselves bound to accept the market ratio of the very moment at which the change was made. A ratio based on the average price of silver during a limited period before the introduction of the gold standard would probably be both the safest and the most equitable.

9. We may be quite sure that, on the introduction of the gold standard, Bankers and bullion dealers away from the Presidency towns, and, perhaps, in the Presidency towns, would charge something for changing silver coins for gold ones. The general public, however, would very seldom require to make such exchanges, and if all Government Treasuries were required to give gold coins for silver coins whenever it was possible for them to do so, there could not be any considerable premium on gold coins so long as there were such coins in the public Treasuries or in the Paper Currency Reserve, and the gold standard would, subject to the above condition, be effectively maintained.

10. After the above measures had been carried out, it might happen that no gold was brought to the Mints to be coined and put into circulation, and that the rupee fell in value below 1s. 4d.

Or, it might happen that though gold was brought to the Mints for a time and the rupee was worth 1s. 4d., yet subsequently gold ceased to be brought to the Mints, the gold coins disappeared from circulation, and the rupee fell below 1s. 4d.

If gold were not brought to the Mint to be coined and put into circulation, or if gold coins disappeared and gold ceased to be brought to the Mints, it would be a sign that the rupee currency was redundant, or, in other words, that there were too many silver rupees in circulation, that consequently their value had fallen below 1s. 4d. each, that gold coins had been driven out of circulation, and that the gold standard was no longer effectively maintained.

The remedy in such case would be to contract the rupee currency, and to adopt any feasible measures for improving the general financial position of the country. An improvement in the general financial position would give increased confidence, and the reduction of the rupee currency, if carried far enough, must ultimately restore the value of that coin.

11. The greatest danger from the cause just indicated would arise immediately after the first introduction of the gold standard, and would be brought about by silver rupees being returned into India from foreign countries, and by their being thrown into the active circulation from Indian hoards. I think that Indian rupees would certainly be returned to from abroad when their value in India became greater than their value, but I now doubt very much if Indian rupees would be brought out of hoards. It is more likely that existing hoards of rupees would remain unaffected. I formerly held a different opinion on this point, and believed that rupees would be largely brought out of hoards when they were given a value exceeding that of the metal contained in them.

12. The reduction of the rupee currency in the manner just indicated, if it became necessary, might or might not prove a very serious difficulty. It could of course be spread over a number of years, but it would not be to a sufficient extent the gold standard would not be maintained. When the rupee currency had once been sufficiently reduced, I should not expect any serious difficulty in the future.

Looking to the increase of population in India, to the rapid opening out of the country, and to the comparatively small part which credit plays in Indian trade, it may fairly be held that even with a gold standard an increase of the rupee currency would be required every year, and that increase I place at not less than Rs. 1,000,000 yearly. It might be considerably more, twice or three times as much. When the coinage of rupees was stopped any redundancy of the silver currency would be diminished yearly by this amount without any action on our part. It is also not impossible that rupees would continue to be withdrawn from the active circulation to be hoarded as at present; they would certainly be hoarded by persons whose savings were small. This cause would still further reduce any temporary redundancy of the silver currency at first starting. Of course while the reduction of the rupee currency was in progress we would not have an effective gold standard, but even during that period of uncertainty I should expect the exchange with England to remain much steadier than it has been during the last few years. It would cease to be blown up and down by every breath of speculation, and if we could establish confidence in our measures, the rate of exchange would tend strongly towards the rate we had decided to maintain, and would only diverge from it under the pressure of real economic forces.

A nation that possessed a fairly satisfactory standard of value might well hesitate to expose itself even temporarily to the evils of an inconvertible standard, but no such argument applies in the case of India. We already labour under difficulties which are quite as great as those to which an inconvertible paper standard would expose us. The prospect of being unable for a time to effectively establish the gold standard need not, therefore, deter us from the attempt to do so if we see a prospect of success in the future.

13. It is also possible that under certain conditions of trade there might be more gold brought to the Mint and put into circulation than was required for ordinary use as currency.

In that case the public would get rid of the gold coins by paying them into the Government Treasuries. Gold might accumulate in these Treasuries and the Government could not, in practice, relieve the Treasuries by forcing gold coins on persons who preferred to receive payment in silver.

The proper remedy for any such accumulation of gold would be for the Treasuries to pass the gold coins into the Paper Currency Reserve which could absorb several millions without difficulty, and the Paper Currency Reserve could be relieved, when necessary, by remitting the gold to England in payment of debts, its place being taken by silver rupees.

No serious difficulty arising from an over-supply of gold coins need, therefore, be feared.

14. It is important to consider what the additional demand for gold would be, owing to the establishment of a gold standard in India.

Taking the active circulation at Rs. 115,000,000, I think that gold coins to the value of one-fifth of that amount would be an ample proportion of the active circulation for the purpose of maintaining the gold standard. This would be Rs. 23,000,000 worth of gold, or, say, £15,000,000 sterling. I believe that the gold standard would be maintained effectively with a smaller amount of gold, and that gold in excess of £15,000,000 in the active circulation would be unnecessary and might be a source of positive inconvenience. When we had arrived at normal conditions the yearly additions of gold required for the active currency would be small, and would probably not exceed £200,000 yearly.

15. It is more than probable, however, that the substitution of a gold standard for a silver standard would lead to an increased use of gold instead of silver for hoarding. On the question of the extent to which this substitution of gold for silver would ultimately be carried I am unable to offer any opinion.

Silver is at present used for hoarding (as a store of value), and for ornament. When it ceased to be the monetary standard of India it would be less suitable for hoarding, but it might continue to be largely hoarded in the form of rupees, and on the other hand, silver bullion would fall considerably in value and price, and its greater cheapness would tend to increase its use for purposes of ornament. It must be uncertain to what extent gold would begin to take the place of silver for hoarding and ornaments after the establishment of a gold standard, but in the first instance, at any rate, the extent of the change would probably not be considerable.

It is held by some that if a gold standard were established in India a great deal of the gold that is now hoarded or held in the form of ornaments would be brought to the Mints, coined and put into circulation. I have never been able to accept this theory. Why should a Native of India give up his habit of hoarding, or an Indian lady cease to take a pleasure in the wearing or possession of gold ornaments, merely because the Government of India had established a gold standard?

There is, however, a large amount of gold imported into this country every year, and there must always be a considerable amount of gold in the hands of bullion dealers. I think that if we had an effective gold standard it is very likely that all this gold, which is, as it were, waiting till the time for absorption arrives, would be coined and become part of the circulation for the time. To facilitate this result I would propose not to charge any seigniorage on gold coins.

16. In this paper I have dealt with the question of a gold standard for India from a practical point of view. Many objections, founded on considerations not of an immediately practical nature, may be raised to the introduction of a gold standard into India. Some of these objections appear to me to possess weight, others I believe to be imaginary. I have no hesitation in saying that an international agreement for the free coinage of both silver and gold and for the making of them full legal tender at a fixed ratio would be far better for India and all other countries than the establishment of the single gold standard, even if the latter course be possible.

Under the former system the worst result that could happen would be the disappearance of one of the metals from circulation, but this would only happen by the other metal taking its place and gradually driving it out, and under such circumstances all countries would have the same standard.

The general adoption of the system of double legal tender would be a perfectly safe measure and would be a final settlement of the question. The attempt to establish a general gold standard is not free from risk. History affords instances of the establishment of a gold standard in one or more countries, but sooner or later the standard was changed. It may, however, be that the conditions of gold mining have so greatly changed that a gold standard can now be maintained for an indefinite period.

17. With regard to the question of the expediency of attempting to introduce a gold standard into India, I do not think that a general agreement for the free coinage of gold and silver cannot be obtained, and if the United States does not adopt free coinage of

silver, I think an attempt should be made to establish a gold standard in this country.

I believe that a perpetuation of the difference of monetary standards between England and Her Indian Empire would be a source of incalculable mischief to both England and India, and that such a state of things should not be accepted until it has been proved by actual experiment to be absolutely unavoidable.

LI.

NOTIFICATION BY THE GOVERNMENT OF INDIA, FINANCE AND COMMERCE
DEPARTMENT, No. 2662, DATED 26TH JUNE 1893.

The Governor General in Council hereby announces that until further orders gold coins and gold bullion will be received by the Mint Masters of the Calcutta and Bombay Mints respectively in exchange for Government rupees, at the rate of 7·53344 grains troy of fine gold for one rupee, on the following conditions :—

- (1) Such coin or bullion must be fit for coinage.
- (2) The quantity tendered at one time must not be less than 50 tolas.
- (3) A charge of one-fourth per mille will be made on all gold coin or bullion which is melted or cut so as to render the same fit for receipt into the mint.
- (4) The Mint Master, on receipt of gold coin or bullion into the Mint, shall grant to the proprietor a receipt which shall entitle him to a certificate from the Mint and Assay Masters for the amount of rupees to be given in exchange for such coin or bullion payable at the General (Reserve) Treasury, Calcutta or Bombay. Such certificates shall be payable at the General Treasury after such lapse of time from the issue thereof as the Comptroller General may fix from time to time.

NOTIFICATION BY THE GOVERNMENT OF INDIA, FINANCE AND COMMERCE
DEPARTMENT, No. 2663, DATED 26TH JUNE 1893.

In supersession of the Notification by the Government of India in the Financial Department, No. 3287, dated the 2nd October 1863, which is hereby cancelled, the Governor General in Council is pleased to direct that, from and after the date of this Notification, Sovereigns and Half-sovereigns of current weight coined at any authorized Royal Mint in England or Australia shall be received in all the Treasuries of British India and its dependencies, in payment of sums due to the Government, as the equivalent of fifteen rupees and of seven rupees and eight annas respectively.

NOTIFICATION BY THE GOVERNMENT OF INDIA, FINANCE AND COMMERCE
DEPARTMENT, No. 2664, DATED 26TH JUNE 1893.

In exercise of the powers conferred by the Indian Paper Currency Act, 1882, as amended by the Indian Coinage and Paper Currency Act, 1893, and of all other powers enabling him in this behalf, the Governor General in Council is pleased to direct that currency notes shall be issued by the Head Commissioner of Paper Currency, Calcutta, and by the Commissioner of Paper Currency, Bombay, on the requisition of the Comptroller General, in exchange for gold coin or gold bullion at the rate of one rupee for 7·53344 grains troy of fine gold. Sovereigns and Half-sovereigns of current weight coined at any authorized Royal Mint in England or Australia shall be taken as the equivalent of fifteen rupees and of seven rupees and eight annas respectively.

LII.

EXTRACT FROM A MINUTE BY THE HONOURABLE SIR DAVID BARBOUR, K.C.S.I.,
DATED 16TH OCTOBER 1893.

* * * * *

5. While I am of opinion that the Government of India might, under ordinary circumstances, undertake to make a grant of 500 lakhs yearly for Railways and Irrigation, the question of the amount of money that the Government of India can undertake to find during the coming year must be specially considered with reference to the present financial position and the prospects of exchange.

The Budget Estimates of the current year showed a deficit of Rs. 1,595,100. Since the Estimates were prepared allowances have been sanctioned for European and Eurasian officers not domiciled in India to compensate them in some degree for the fall in the rate of exchange, and we have undertaken to pay furlough allowances at the rate of 1s. 6d. per rupee. These concessions add materially to the expenditure so long as the rate of exchange with England is below 1s. 6d.

On the other hand, no steps have been taken to secure financial equilibrium except the stoppage of the free coinage of silver with the intention of ultimately introducing a gold standard into India, and in the hope that the permanent rate of exchange might be fixed at not less than 1s. 4d.

6. If the stoppage of the free coinage of silver had resulted in raising the rate of exchange to 1s. 4d., our most pressing financial difficulties would have been relieved.

The rate of exchange has not, however, risen to 1s. 4d., and though the Secretary of State has practically ceased to draw bills for three months, the demand rate of to-day in Calcutta does not materially exceed 1s. 3d. It is impossible to say what the course of exchange will be during the next few years; but I have no hope that the Secretary of State will get an average rate of 1s. 4d. during the remainder of the present year, and the future is so uncertain that it is impossible to base our action on the assumption that the average rate of exchange will rise as high as 1s. 4d. during the financial year 1894-95.

* * * * *

9. We have taken the preliminary steps towards introducing a gold standard into India, and it is of vital importance that our policy should be carried to a successful issue. Before the Indian mints were closed to the free coinage of silver, it was possible to hope that that measure would of itself lead to the rise of the rate of exchange to 1s. 4d., that we should only have to wait while a gold reserve accumulated under trade influences, and that the gold standard could be introduced into India with but little trouble. It seems impossible any longer to entertain the hope that the mere closing of the Indian mints to silver will lead to the accumulation of a gold reserve, and bring about the effective establishment of a gold standard without its being necessary for us to take any further steps in the matter.

According to present appearances the establishment of a gold standard will be a work of time and labour, involving sacrifices so heavy that they may tax our resources to the utmost.

10. On the other hand, the speedy establishment of the gold standard is most desirable. We have now neither a gold standard nor a silver standard; our trade with China suffers severely and our trade with gold standard countries has not so far been appreciably facilitated. The measures taken to improve the position of the European services (the grant of exchange compensation allowance and of favourable rates for the payment in England of rupee pensions and furlough allowances) have, in round figures, converted a rupee liability of Rs. 4,380,000 into a sterling liability of £3,312,000. This conversion, at favourable rates, of rupee liabilities into sterling liabilities has added materially to our rupee expenditure, and the additional expenditure will increase with every fall in the exchange value of the rupee, and must aggravate our financial difficulties so long as we are unable to effectively establish the gold standard.

11. The establishment of the gold standard in India has been undertaken under specially unfavourable conditions.

In the first place, the drawings of the Secretary of State are very great in proportion to the magnitude of India's trade and of her total revenue, and, as I have already shown, these drawings do not constitute the whole of the burden of this nature which falls on that trade.

In the next place, we are attempting to introduce, or hoping that we may be able to introduce, a gold standard at a higher rate of exchange than that which prevailed when the Indian mints were closed to the free coinage of silver—a task the magnitude of which it is impossible for us to measure.

In the third place, we are trying the experiment when our finances are seriously embarrassed, and when expenditure materially exceeds revenue.

Considering the magnitude of the interests at stake, and the difficulties we have to meet, we ought not to throw away a single chance, or to do anything which might delay success by a single month. The longer the delay in establishing the gold standard, the weaker will be the confidence of the general public in our ability to make the gold standard effective; and the greater our loss of credit, the more difficult will our task become.

12. Various devices have been put forward under the impression that they would solve the difficulty, such as a refusal by the Secretary of State to sell drafts at a lower rate than 1s. 4d., or the imposition of an import duty on silver. The former proposal appears to me a most dangerous one. The Secretary of State possesses no power to regulate the rate of exchange on India by manipulating the sale of his drafts. He has certain sterling payments to make in London, and he must draw bills to an amount sufficient to enable him to do so, and he cannot sell the necessary amount of bills unless he is prepared to let them go at the rate at which the market will take them. If exchange will of itself rise to 1s. 4d., we need not interfere to fix a minimum of 1s. 4d.; if it will not rise to that rate under ordinary market influences, the only result of withholding bills will be to give a temporary stimulus to exchange, with the result of causing a more than proportionate reaction at a subsequent period. An import duty on silver would now have no more direct effect in raising exchange than an import duty on piece-goods or any other commodity,—perhaps not so much,—and it would be attended with evils which would seriously counterbalance any advantage that could be expected from such a measure. There is, in fact, no royal road to the establishment of a gold standard in India, and specially to the establishment of it at a higher rate of exchange than that which prevailed when the Indian mints were closed.

13. The only sound and certain method of establishing the gold standard is to be found in the necessary reduction of the rupee currency. We know that there are many coined rupees in existence which may be poured into that currency, and we can neither say what the total amount may be, or what length of time it may take to make the necessary reduction. Nevertheless the difficulty must be faced, and the sooner it is faced the better. There can be no real reduction of the currency until we possess a surplus of revenue over expenditure which may be devoted to this purpose, and in my opinion the primary duty of the Government of India is to re-establish financial equilibrium either by reducing expenditure or by imposing additional taxation. Any surplus that would then be available should be devoted to the withdrawal of the redundant currency. The process may be tedious and difficult, and involve a heavy sacrifice, but if we persevere in this course we may hope that the gold standard will ultimately be established, and by no other process can we make certain of arriving at the desired result.

14. The task of establishing a gold standard will be facilitated if, at the same time, we can succeed in reducing the total amount of the remittances to England, and in any case we ought scrupulously to avoid increasing them. However beneficial the construction of new Railways may be, we must recollect that a heavy expenditure from borrowed money on Railways would not only involve, for a time at least, an increase of net expenditure and thus render it more difficult to establish financial equilibrium, but would add permanently to the amount that has to be remitted to England, and thus directly tend to depress exchange, and counteract any efforts we may make towards the establishment of the gold standard.

The measures which the Government of India should adopt are, in my opinion, as follows :—

- (1) The immediate establishment of financial equilibrium, whatever the cost may be.
- (2) The devotion of any surplus that may be obtained to the reduction of the number of coined rupees in circulation, such reduction of the currency to be carried as far as may be found necessary to produce the desired result.
- (3) The reduction of, or at least the avoidance of any increase to, the Home charges and the total remittances to England—a process which necessarily involves the application of a strict limit to the construction of Railways and Canals from borrowed money, and which, if the Famine Grant is suspended, will necessitate a contraction of the present Public Works programme.

Objections may be raised to the stringent proposals which I have just stated, and especially to the proposal to restrict the expenditure of borrowed money on Railways, but we can no longer postpone with safety the task of facing the position before us in the hope that something may turn up which will enable us to avoid fulfilling an unpleasant duty ; and the Government of India fail to take steps to place the finances in a sound condition, and shrink from adopting the only means which can be depended on for effectively establishing the gold standard, I apprehend that consequences will follow which may be of the most serious nature.

LIII.

MINUTE, DATED THE 17TH OCTOBER 1896, BY THE HONOURABLE SIR JAMES WESTLAND, DISCUSSING THE PROPRIETY OF ALTERING THE RATE AT WHICH GOLD SHOULD BE TAKEN IN EXCHANGE FOR RUPEES FROM 1s. 4D. TO 1s. 3D.

In my Financial note upon the proposals relating to Railway construction which are now before the Government of India, I have shewn that the direct consequence of the transactions, which will pass through the Accounts of Government, will be the reduction of the Secretary of State's drawings from their present figure, about 17 millions sterling, to 14 or 14½ millions, and I have alluded to the possible evil consequences of that reduction upon trade and commerce. I regret to say that since I wrote that note, the probabilities of heavy famine expenditure have greatly increased, and there is now, more than ever, reason to say that this estimate of 14 or 14½ millions of drawings for next year is the highest we can make.

2. I intentionally avoided entering upon a difficult and obscure subject closely bearing upon this question, *viz.*, whether in the coming year the scarcity which is impending over India would have any considerable effect in reducing or increasing the balance of trade; or whether it would so alter that balance as to fit it more nearly to the new restriction of the amount of Council Bills. There is no doubt that India will have less available produce under one or two of its chief articles of export, but, on the other hand, the means available to the people for expenditure on imports (for example on Manchester goods) will be less, and imports also will for this reason be restricted. This was the view I took, but considering the obscurity of the details of these operations, I thought it wisest to avoid speculations on the subject; and to assume no alteration either in the way of decrease or in the way of increase in the balance of trade.

3. There is, however, one aspect of the new programme which will intensify the effect of the restriction of Council drawings. Over and above the transactions connected with Railway construction, which pass through our accounts, there is the following anticipated outlay during the next three years:—

	000 Rs.
1. Construction of Branch Line Companies	7,78,75
2. Construction of Assisted Companies	2,41,00
3. Godavery Valley Railway	3,07,25
	<hr/>
	18,27,00
4. By Native States	2,91,90
	<hr/>
TOTAL	16,18,90

Now, even if we assume that the whole of this last item will be found out of capital existing in India, yet the bulk of the first three items, that is, four or four-and-a-half crores a year, will be practically European capital invested in Railways in this country. I say "practically," because for purposes of remittance the same effect is produced by the diversion towards investment in this country, of money (say the savings of Europeans) which would otherwise be sent out of India for investment in England or elsewhere, as is produced

by the remittance from England, for investment here, of capital accumulated in England.

4. All these transactions are on a much larger scale than anything of which we have had recent experience, and they all create a demand for remittance from England to India (that is, for Council Bills). So that we may anticipate that not only will the amount of Council Bills have to be greatly reduced in respect of one portion of the programme, but at the same time, an enlarged demand for them will be created by another part of it.

5. In the note to which I have referred, I drew attention to the evil effects upon trade of a demand for remittance, which might have a sudden and considerable effect in the way of raising the exchange value of the rupee. It will be seen that that effect is enhanced by the considerations now set forth. I desire therefore to suggest, as a measure for the prevention of these anticipated strains, a revision of that portion of our currency measures undertaken upon 26th June 1893, which fixed at fifteen rupees the rate at which sovereigns were to be received in our Treasuries and in our Currency Department. I would change it now to Rs. 16, being an exchange of 1s. 3d. instead of 1s. 4d.

6. The introduction of a rate for exchange of sovereigns had a two-fold object. It was first of all intended to set a limit upon any excessive rise in the exchange value of the rupee, and in the second place, it was intended to lay the gradual foundation of a gold currency.

7. The first aspect of the matter was dealt with in paragraphs 147 to 150 of the Herschell Committee's report:

"147. It appears to be desirable that any such scheme should afford security against any sudden and considerable rise of exchange. If the closing of the mints were thought likely to lead to such a rise, the opposition to the measure would, no doubt, be greatly augmented. In all probability the cessation of free coinage of silver would be immediately followed by a fall in the price of that metal. If at the same time exchange rose considerably, the divergence between the rupee and its intrinsic value would become at once very marked. The difficulty of maintaining the rupee at its higher exchange value might be increased, and the apprehensions of disaster which are entertained, even if they be exaggerated or unreal, would be intensified.

"148. Moreover, the rise in exchange would be calculated to lead to a fall in the price of Indian produce. And, if this were seen to follow, and believed to be caused by the action of the Government, public opinion might be disturbed and the situation might become critical. The view has been expressed that, even though the native producers might not be likely to be actively hostile to a scheme which left prices unaffected, they would be far from indifferent, and the state of things might become dangerous if prices began to fall very sensibly.

"149. What, then, would be the effect of the scheme suggested by the Government of India? Closing the mints, even if the Government of India were to issue the proposed notification that gold coins would be made legal tender at a rate of 13½ rupees to the sovereign, might bring about a rise in exchange to the level thus indicated, viz., 1s. 6d. per rupee. It is true that those who think that exchange would not for a considerable time rise at all, and that even the existing ratio might not be maintained, may be right in their anticipations. But it must be admitted that on such a point no one can predict with certainty; exchange might rise suddenly and considerably, unless the Government were to interfere actively to prevent it; and the public would not feel any certainty as to the course they would take.

"150. The scheme might, however, be so modified that the exchange could not immediately rise much above its present level. It might be provided that the mints should be closed to the public for the coinage of silver, but should be used by the Government for the coinage of rupees if required by the public in exchange for gold, at a ratio to be fixed in the first instance not much above that now prevailing, say 1s. 4d. the rupee. Any fear of a considerable rise would thus be allayed, and any evil effects of such a rise would be prevented. Moreover, even if silver fell, the divergence between the nominal

Ratio for coinage of rupees on tender of gold at the mints.

and the intrinsic value of the rupee would not be so great as if exchange at the same time rose. There would be these additional advantages: first, the currency would not cease to be automatic; next, it would be a less violent step than closing the mints altogether. They would practically remain open, subject to certain conditions. It would be the smallest departure from the *status quo* which could accomplish the object the Government of India have in view. Besides these advantages there would be the further gain, that it would still leave the volume of the rupee coinage dependent on the wants of the people of India, and the fact that rupees might continue to be coined would tend to prevent silver falling as much as would be the case if it were supposed that the coinage of rupees was to cease altogether."

8. In paragraph 156 the Committee made the recommendation that gold should be received "at a ratio to be fixed, say, 1s. 4d. per rupee":

"156. But we consider that the following modifications of these proposals are advisable. The closing of the mints against the free coinage of silver should be accompanied by an announcement that, though closed to the public, they will be used by Government for the coinage of rupees in exchange for gold at a ratio to be then fixed, say, 1s. 4d. per rupee, and that at the Government treasuries gold will be received in satisfaction of public dues at the same ratio."

9. This recommendation was adopted, and it will be sufficient to quote the following from the speech of the Marquis of Lansdowne on the passing of the Bill for carrying out the measures:—

"The step recommended by the Committee will not produce any violent disturbance of values. It will, to use the words of Messrs. Farrer and Welby, 'not materially alter the present relations between debtor and creditor, but, on the contrary, prevent those relations being altered in the future by a further fall.'

"It has also this further advantage, that it provides an automatic means whereby it will be possible to prevent the closing of the mints from leading to a sudden and violent disturbance in the rate of exchange. I refer of course to the provision that any person may hereafter bring gold to the mints and obtain for it rupees at the rate of 1s. 4d. per rupee, and that gold may be tendered in payment of Government dues at the same rate, which is equal to one sovereign for Rs. 15. I need scarcely explain that the effect of this will be that, should exchange show a tendency to rise in the open market beyond the rate originally fixed; should it, for example, rise to a ratio giving, let us say, 1s. 4½d. as the equivalent for one rupee, or something less than Rs. 15 for the sovereign, it will at once become a question to bring gold to the mint, and to exchange it at the full rate of one sovereign for Rs. 15. In this manner, by a self-acting process a rise beyond the level which has been provisionally indicated will be rendered impossible so long as that limit remains in force."

10. As regards the second aspect of the matter, *viz.*, its bearing upon the ultimate establishment of a gold currency, the following quotation from a minute of two of the Members of the Committee may be transcribed:—

"7. This closing of the mints, however, is only the first step in the process contemplated by the Indian Government, and that process will not be complete until gold is made full legal tender, and is received into the Indian currency as freely as gold is received in England or as silver is now received in India. This may be effected either by the free reception of gold at the Indian mints or by the free reception under arrangement with the Imperial Government of gold sovereigns coined in England or in Australia as legal tender currency of India. When this is done, the change will be complete, and India will then have a gold standard of value, and a gold automatic currency, the quantity of which will depend on the demand for it. What that demand may be is uncertain. Sir D. Barbour estimates the outside of the quantity needed to maintain the gold standard at 15,000,000*l.*, which is only one-tenth of the value of the estimated present rupee currency. But, whatever the precise amount, the gold currency is not expected to be more than a small fraction of the actual currency in circulation.

"14. At any rate, the expense necessary to procure and retain the requisite amount is one that cannot be avoided by any Government which desires to maintain the credit of its currency, and will be insignificant compared to the loss of which the Indian Government might complain.

"15. Under these circumstances, we could not join in the recommendation contained in the report without at the same time recommending that the Government of India, in view of the ultimate adoption of the whole of their plan, be prepared to secure the stability of their token silver currency, and should with that object accumulate a small reserve of gold."

11. Now, first I have to remark that the Committee did not attach any importance to the precise ratio of *1s. 4d.* Their recommendation was worded thus; a ratio to be fixed, *say, 1s. 4d.* They even contemplated its being altered after being first fixed, with the sanction only of the Secretary of State (*vide* paragraph 151), though the direction in which occasion would arise for its alteration was considered by them to be rather that of a higher than of a lower exchange.

"151. The Government of India have expressed the opinion that there would be no practical difficulty in carrying such a modified scheme as this into effect. It would not, of course, be essential to the plan that the ratio should never be fixed above *1s. 4d.*; circumstances might arise rendering it proper, and even necessary, to raise the ratio; and the Indian Government might be empowered to alter it with the sanction of the Secretary of State. Such a scheme would, indeed in the first instance, be tentative, and would not impede further action if circumstances should render it desirable."

12. Sir Dawid Barbour similarly, when introducing the legislation, intimated that the establishment of the *1s. 4d.* rate was temporary only, and that the settlement of the permanent rate was left for "the light of future experience."

"It is not intended to do more at present than stop the free coinage of silver at the Indian mints, and, as a provisional arrangement, to provide for the issue of rupees at those mints in exchange for gold at the rate of *1s. 4d.* per rupee. The making gold coins legal tender, the settlement of the permanent rate of exchange between gold and the silver rupee, and the other measures necessary for the final and effective establishment of a gold standard in India, will be provided for by future legislation and in the light of future experience."

13. This particular ratio of *1s. 4d.* was selected on the following considerations: first, it was "not much above that now prevailing" (paragraph 150 of report). Second, it was considered that a lower rate would not relieve the Government from its financial difficulties. Lord Lausdowne said in the Legislative Council:—

"These precautions will, I hope, go far to allay the apprehensions of those who mistrust the idea of any attempt by Government to increase artificially the value of its currency. Upon the other hand, the provisional ratio which the Committee has recommended, and which may, should circumstances hereafter require it, be raised, is sufficiently high to afford the Government of India immediate and substantial relief from its most pressing difficulties. Had the ratio been fixed lower in the first instance, I do not see how it would have been possible for us to avoid adding to the taxation of the empire."

[Here again we see the rate talked of as a provisional one.]

14. We know now how much foundation there was for the feeling of uncertainty as to the ultimate results of their action to which the Committee gave expression. Their anticipation was that the rate of exchange might (not to say, would) immediately rise, and that it was necessary to set a limit to that rise. Had they foreseen what we now know to be the result of the measures that were taken in 1893, they would certainly not have gone so high as *1s. 4d.*, and to me it seems undoubted that the considerations which induced them to recommend that rate, would, if they had more clearly foreseen the consequences, have recommended, much rather, the rate of *1s. 3d.* So far as our experience during the past three years has shewn (apart from the considerations special to the present Railway proposals), the ordinary course of trade seems to be establishing a rate that may within a short time rise to *1s. 3d.*, but is likely to take a long time to rise to *1s. 4d.*

15. I do not regard a question of this kind as one on which we ought to be impatient for a final result. Three, or four, or five years are but a short space of time in the history of an Empire, or of its currency and trade move-

ments. This consideration has withheld me hitherto from formally raising the question whether it was wiser to aim at a rate of *1s. 3d.*, which might be soon attainable, or to wait a possibly considerable time for the higher rate of *1s. 4d.*, although I had it in mind even before the rise of exchange that took place last March. But now that I have before me precisely the contingency which the Herschell Committee desired to guard against (*viz.*, a sudden rise in the rate of exchange), and when moreover I see that the Herschell Committee themselves, if they had had in 1893 the knowledge which we now possess of the result of their action, would, so far as I can read their mind from their report, have preferred the rate of *1s. 3d.* to that of *1s. 4d.*, and when I see moreover that the *1s. 4d.* rate was treated, on all sides, as a provisional one only,* I think it open to me now to raise the question. The dread of "pressing difficulties" arising in connection with our revenue account is now no longer present with us. We know on the contrary that a settled rate of *1s. 3d.*, if it could be attained, would be to us a haven of rest, in which we would immediately consider not any question of "adding to the taxation of the Empire," but how best to select among the methods of reducing it.

16. If the question may be reopened, I think the time is extremely opportune for doing so. The coast is clear for action, for I think not a single sovereign has been received by us under the *1s. 4d.* rule, so that we are not bound by any past transactions of our own. Moreover, the present rate of exchange being only about *1s. 2½d.*, we may take for granted that not a single forward exchange engagement has been made which will be in any way affected by our reducing the maximum limit from *1s. 4d.* to *1s. 3d.* Still farther, we have before us operations, created by a new policy of our own which will in the present state of circumstances give rise to the very evils which the Committee's fixed rate was intended to prevent, unless we, following the line of policy they laid down, now apply the proposed revised rate of *1s. 3d.*

17. That the danger is not unreal will, I think, be evident from the following considerations. Last year, in the middle of October, the Bank of Bengal rate was 3 per cent., and from then till the end of the financial year the Secretary of State drew for £7,500,000; the result was that the rate of exchange went up from *1s. 1¾d.* in October to *1s. 2¾d.* in March. This year the Bank rate is 6 per cent., that is, we begin with a tighter market; the Secretary of State, according to his programme, will draw for £6,900,000 only, during the same period. We start with a present exchange of about *1s. 2½d.*; so that, apart from any effect the scarcity may have upon trade, the effect upon exchange will be more intense than last year, and we may confidently expect a rise in February or March beyond *1s. 3d.* We contemplate announcing at that moment the intended short drawings of the year 1897-98. Should we not prepare against this at once by establishing our gold price, for treasury, and currency at *1s. 3d.*?

18. The result will be that both traders and ourselves, and also those who are interested in financing our Railway schemes, will contemplate with equanimity the short drawings of the Secretary of State, and the difficulties

* Mr. Bertram Currie, one of the Committee, in a separate minute, proposed that the rate should be fixed until experience had shewn the actual result of the change. It was the fear of an immediate and serious rise which induced the Government to announce the rate at the time of declaring their policy.

connected therewith. In obedience to the laws of commerce, the excess remittances which have to be made from England to India will come out in the shape of sovereigns or of gold; they will be presented to us, like Council Bills *are*, in exchange for rupees, but they will remain in our treasuries a reserve available for our treasury and currency purposes in the same way that coin is available. For there cannot be a doubt that every sovereign will find ample field for use as current coin at Rs. 16, since we shall certainly never reduce below 16 the price at which we are ready to exchange them for rupees. So long as the conditions of excess trade demand for remittance from Europe remain in force, gold will continue to come out to this country at this rate of 1s. 3d.; and if at any time they are reversed (as they are not likely to be for some years at least) the gold coin, whether left in the hands of the public or remaining in our treasuries, will find its way home, either directly or indirectly, in relief of the deficiency of trade remittance from England. We can in no event be worse off than we are at present, and we may and probably will be better off.

19. I wish to explain this last sentence more fully, and I shall use the phrase "ordinary course of exchange" as meaning the course which exchange will take if no alteration is made in the 1s. 4d. limit.

Exchange will in the future in its ordinary course either be below 1s. 3d., or between that figure and 1s. 4d. While it is in the first of these stages, it is of no practical consequence whether the limit is at 1s. 4d. or at 1s. 3d. But while it is in the second stage, we will, if matters remain as they are, be exposing commerce and trade to the risks attendant upon a considerable rise of rate, while if we alter the limit, we shall not only save that risk, but shall be making definite progress to a gold currency.

20. If the circumstances of the future are such that in ordinary course the rupee would rise above 1s. 3d. and thereafter again fall below it, then if we make no alteration in the limit, we shall have exposed commerce first to a rise and then to a fall of exchange, whereas if we do alter the limit we shall have maintained the rate permanently at 1s. 3d. during the whole period of what would otherwise have been the rise, and also during so much additional time as it takes to absorb the gold that we shall have laid up during the period of the rise. For, so long as we hold a single sovereign in our treasuries which we can remit to him, the Secretary of State need not sell a single Bill under the rate of 1s. 3d.

21. From every point of view therefore the change from 1s. 4d. to 1s. 3d. has become desirable in the interest both of fixity of exchange and of the ultimate establishment of gold standard. From one point of view only can considerations affecting Government be urged against it. With an exchange of 1s. 4d., *other things being the same*, our revenue account is better by some two crores of rupees than with an exchange of 1s. 3d. But then the whole question is whether other things do remain the same. This involves the whole consideration whether 60 crores of taxation and the like, the rupee being worth 1s. 4d. in gold, are or are not a smaller burden than 62 crores when the rupee is worth 1s. 3d. in gold,—a question most difficult and abstruse. I can only say (and in this I speak only for myself, but am repeating opinions I have given expression to for a long time past) that in my opinion our financial difficulties of the past twenty years have arisen more from a falling rate of exchange than from a low rate of exchange; that is to say, using the illustration already given, from the fact that we were oblig'd

to raise the amount of taxation from 60 crores to 62 crores before the altered value of silver had sufficiently operated upon prices, rates of wages, and other economic circumstances to make the new 62 crores of burden less than the old 60. It is certainly true that falling exchange has compelled us to resort more than once to increased taxation, but it is certainly also true that falling exchange has had a great deal to do with the continually increasing produce of each of our sources of revenue.

22. So long as the "ordinary course of exchange" for the future would give us less than 1s. 3d. we suffer nothing, even in our revenue account, from adopting 1s. 3d. as our rate for the receipt of gold. If the "ordinary course of exchange" would give us more than that, then I think that the advantage of fixity of exchange, and the probable earlier establishment of gold currency, is, in pursuance of the policy of the currency reform of 1893, a greater advantage than any we are likely to derive from the enhancement from 1s. 3d. to 1s. 4d. of the value of our rupee for the purposes of payment of our sterling liabilities. The Herschell Committee rejected the proposal to wait for a possible future rate of 1s. 6d., and thought an earlier (they anticipated an immediate) rate of 1s. 4d. preferable to all the interests concerned. For the same reason, adopting their views, but accepting the light of later experience, I consider it preferable to take an early (and possibly an immediate) rate of 1s. 3d. rather than a rate of 1s. 4d., which we may have long to wait for.

23. It is in view of the great difficulties we shall have to meet next year that I press the consideration of this proposal. We shall have to finance a famine (how big a famine we do not yet know), and we shall have at the same time to finance a much larger programme of Railway construction than has yet been attempted. What the difficulties of a famine taken alone may come to we can see from the figures of 1877-78, a year in which the direct expenditure upon famine was Rs. 5,345,775. The drawings of the Secretary of State in the years before and after that were as follows:—

	£
1875-76	12,389,613
1876-77	12,695,799
1877-78	10,134,455
1878-79	13,948,565
1879-80	15,261,810

But as matters then stood the deficiency in the Secretary of State's capacity to offer Council Bills was easily made up by remittance of silver to India, and for the above years the following are the net imports of that metal:—

	Rs.
1875-76	1,555,355
1876-77	7,194,872
1877-78	14,676,335
1878-79	3,971,694
1879-80	7,869,742

The safety-valve then open, the necessity of which is shewn by the ordinary figure of 1877-78, is now closed, and the figures therefore con- warning of the difficulties we may next year have to meet. For the possible safety-valve now is the remittance of gold and not of silver, and safety-valve will not be open under present arrangements until our foreign

trade has first passed through the period of disturbance described in the extract quoted in paragraph 7 above, which will be necessary for its adapting itself to a rate of exchange which is nearly two pence in excess of the present rate.

24. With the rate now fixed at *1s. 3d.* little or no inconvenience will arise, either to us or to commerce, from any reduction or even from any stoppage of Council Bills. We shall have linked ourselves, for the time at any rate, to the gold standard of England; and if our remittances fall in arrear, it will not be an arrear that we have to make up in the future, for the trade remittance will at once commence to be carried on by gold, and we shall possess, in gold in India, the means of paying off the arrear at any time we please.

25. Famine relief is a kind of expenditure which cannot easily be measured beforehand, and yet has to be met without delay, when the necessity arises. The task which is before us of financing next year both the anticipated famine and our Railway programme will under any circumstances be one of the greatest difficulty, and it is one which in my opinion will be impossible, or at least will be productive of serious consequences unless, by altering as I propose the rate at which we receive gold, we loose the link which at present binds together our operations and those of trade remittance, and thus set ourselves free to consider these questions of resource solely as they affect our own operations, without having to consider at the same time the disastrous effects they may have upon commerce. I think it is a necessity of next year's finance that the Secretary of State should be in a position to reduce, or even discontinue his drawings for a time, without feeling that in doing so he may be gravely disturbing the course of trade or may be incurring sterling liabilities with only rupee assets to set against them.

26. I conclude by saying that, although personally I considered this subject long before I worked out the actual financial consequences of our Railway policy, I would not have thought the time had come to bring it forward unless I had found the immediate necessity arise in connexion with these consequences. The reduction from *1s. 4d.* to *1s. 3d.* of the rate at which we are prepared to receive gold in our treasuries and in our Currency Department seems to me the one condition by which our Railway policy can be reconciled with the conditions of both of our own remittances and of trade remittances; and I propose it not only because it averts all the inconveniences (not to use a stronger word) that may arise in that connexion, but because it makes our Railway policy an instrument for carrying forward, and perhaps ultimately carrying to a successful conclusion, the policy of currency reform adopted by the Government of India on the recommendation of the Herschell Committee.

27. It should be borne in mind that the opportunity for action will have passed, if no decision is come to by the time the rupee rises in ordinary course to *1s. 3d.*, because in that event any possible action will involve a modification of existing commercial engagements.

MINUTE, DATED 22ND OCTOBER 1896, BY MR. J. F. FINLAY, ON THE PROPOSED ALTERATION FROM 1s. 4d. TO 1s. 3d. OF THE RATE AT WHICH GOLD SHOULD BE TAKEN IN EXCHANGE FOR RUPEES.

1. The Honourable Member having spoken to me on the subject of the proposal in his note of 17th October 1896, I mentioned that I thought the proposed measure was very inexpedient, and in view of the importance of the matter, which cannot be exaggerated, I asked him for permission to criticise the proposal with the same freedom as would be open to me if the proposal had come from an outside source instead of from him. This permission he kindly gave.

2. It will be seen from his note that the Honourable Member had come to the conclusion that it is desirable to substitute 1s. 2d. for 1s. 4d. the rupee as the rate at which we are prepared to issue rupees in exchange for gold, altogether apart from and independently of the special circumstances connected with the programme of Railway construction and the probability of famine, which lead him to make the proposal at the present time.* It will therefore be convenient to divide my remarks into two parts, the first treating of the subject on general permanent considerations, and the second taking into account the special circumstances of next year.

I.—GENERAL PERMANENT CONSIDERATIONS.

3. I entirely agree that the main object of the currency policy is to attain a stable exchange, and it would be wise to adopt for the rate at which gold shall be received in the transition period and at which the ultimate establishment of the gold standard shall be effected, any rate of exchange which may seem the most likely to secure and maintain stability.

4. To trade and the mercantile community it is a matter of perfect indifference whether the stability is reached with exchange at 1s. 3d. or 1s. 4d. or 1s. 6d. : in this opinion also I understand that I am in agreement with the Honourable Member.

5. To the official community and other Europeans drawing salaries in rupees a higher rate of exchange is of course preferable to a lower ; but I am strongly of opinion that the preference of this class for a high exchange should be allowed almost no weight in settling the question, and that their interests should be entirely disregarded if they clash with the interest of trade and of the Government : at the same time it is necessary to guard against the overstrained conscientiousness which would refuse or hesitate to adopt a conclusion on other grounds because it happens to suit also the personal interests of those who are privileged to give advice in the matter.

6. There remain the interests of the Government, and, which is the same thing, of the general taxpayer. The Government will certainly be able to pay its way with exchange at 1s. 3d., and as it has already had to frame its estimates at a lower rate, it will not feel any strain or difficulty in adapting

* After I had written and sent to Press the bulk of this note the Honourable Member told me that if the prospect had continued to be that exchange would rise gradually to 1s. 4d., he would not have proposed to change the rate; and that the circumstances of next year therefore constitute his determining reason for making the proposal as well as for his making it at the present time.

its finances to that rate in the ordinary years. But the required equilibrium will be secured only by maintaining taxation at a level higher by two crores than if the higher rate of 1s. 4d. were established.

7. This objection to the proposal is noticed in paragraph 21 of the Honourable Member's note. I venture respectfully to question the correctness of the conclusion drawn in that paragraph, that 62 crores of taxation with exchange at 1s. 3d. is no heavier burden than 60 crores with a rate of 1s. 4d. As there said, the question is most difficult and abstruse. The one point absolutely beyond dispute in that paragraph is that with the lower rate the interest and other sterling charges will cost two crores of rupees more to discharge. The rest is open to argument.

8. The Honourable Member is of opinion that falling exchange has had a great deal to do with the continually increasing produce of each of our sources of revenue. The opinion that falling exchange benefits the trade, and consequently the public revenues, of India was at one time held by many. Numerous refutations have however been published in the last ten years, and I had hoped that the opinion had been now generally discarded: and that it was almost universally accepted that any benefit derived from a falling exchange is of a most transitory kind and leaves no trace of permanent or general good behind it. It would be out of place, however, to argue out that difficult question in this note; and, as will appear from the next paragraph, I do not think that it really affects the issue being discussed.

9. Whatever the effect of a *falling* exchange on trade and revenues, I believe it is generally accepted that neither trade nor revenues are in any way benefited or made more prosperous or greater by a stable rate of exchange on a low level as compared with a stable rate on a higher level. The Honourable Member in paragraph 21, draws a sharp distinction between the effects of a *low* rate of exchange and those of a *falling* exchange. And his argument in paragraph 21 seems to attribute the alleged beneficial effects on our revenues entirely to a *falling* exchange. But the question with which he is dealing is the difference in the burden of taxation of a named amount in periods when two distinct stable rates of exchange prevail, and it has nothing to do with any period in which the rate is falling from the higher to the lower rate. His conclusion therefore that the burden of taxation of a named amount is lighter with a stable exchange of 1s. 3d. than with a stable exchange of 1s. 4d. does not seem to me to follow from his premises. However, I may have misunderstood the Honourable Member's argument, and he may mean to assert that in addition to the beneficial effect on trade and revenues of a falling exchange, there is also a similar effect produced by stable low exchange as compared with a stable high exchange: that certainty is necessary to the conclusion drawn in paragraph 21. If so, I can only respectfully express my dissent from the premiss and the conclusion. I feel as great certainty as is possible in such matters that a stable low exchange has no advantage over a stable high exchange in the way of stimulating trade or lightening the burden of taxation.

10. The sum of this part of the matter is, that if the rate of exchange is permanently fixed at 1s. 3d. instead of 1s. 4d. the one certain effect will be that we shall have to spend annually about two crores of rupees more to meet our sterling payments, and that the number of rupees to be raised by taxation must therefore be permanently higher by that amount: whether there will be compensatory advantage which will make that additional taxation an addition in appearance only and not a real additional burden, is, at any rate, open to doubt.

11. The facts above brought out are that the adoption of the rate of 1s. 3d. instead of 1s. 4d. will involve a large permanent addition to our annual expenditure expressed in rupees; that the taxation must be larger by that number of rupees; that it is *prima facie* probable that that addition will be a real addition to taxation; and that it is, to say the least, doubtful whether the compensation will occur which it is alleged will cause the increased taxation to be a nominal and not a real addition to the burden of taxation. These facts seem to me to render it highly desirable to adhere to the higher rate of 1s. 4d. unless there are other strong reasons for changing the rate.

Are there any such reasons? Omitting for the present the reasons connected with the special circumstances of next year, which I shall deal with in Part II of this note, the only general reason stated in the Honourable Member's minute in favour of the change is that, while there is an early prospect of exchange rising to 1s. 3d., it is likely to take a long time to rise to 1s. 4d., and that consequently by adopting the lower rate we shall attain stability of exchange and the establishment of a gold standard much earlier.

13. If it were certain that the establishment of the gold standard could be brought forward and the present period of transition in the currency policy could be shortened considerably, that is to say, by several years, by the proposed measure, I should cordially support it. But there is no such certainty. It is dangerous, and perhaps foolish, to prophesy in such a matter, but it is necessary to weigh probabilities in advising on a measure which affects the future. And to me the probabilities seem that the "ordinary* course of exchange" would raise the rate to 1s. 4d. about a year after it has raised it to 1s. 3d. As far as I can judge, the causes which have been operating for the last two years or so, and which have raised the rate in that period from 1s. 0½d. (in May 1894) to 1s. 2¾d. will continue to operate, and will raise the rate gradually to 1s. 4d. I see no reason to anticipate that those causes will cease to operate or will operate more slowly after a rate of 1s. 3d. has been reached. If the interval between 1s. 3d. and 1s. 4d. is not likely to exceed one year or even two or three years, the reasons stated by the Honourable Member in the first part of paragraph 15 of his note should lead us to refrain from making the change to 1s. 3d.

14. My main reason, however, for deprecating the change so strongly as I do, is that I believe that its adoption will very probably have the effect of increasing a hundred-fold the chances against our ever being able to establish a gold standard at any rate whatever. This effect will be produced by a renewed outburst of want of public confidence in the ability or even the desire of the Government of India to carry its currency experiment to a successful issue. It has been frequently pointed out that public confidence is a very important element in the matter. To quote one such remark: Sir D. Barbour in introducing the Bill of 1893 said, "If the public lose confidence in the success of our measures the difficulties of establishing and maintaining a gold standard will be enormously increased." There is, I think, no doubt that want of confidence in the Government has in the past seriously hampered the progress of the experiment. Doubts were generally felt as to the ability of

* I use this expression in the sense defined by Honourable Member in paragraph 19, and also as excluding the effect of the Railway programme and of the annual increase in the value of the rupee. I believe that the net effect of those two will be to retard the rise which would have occurred if both were eliminated.

the Government to carry through its experiment: many asserted and many believed that this had been recognised, that the intention to persevere in the attempt had been abandoned and that the mints were about to be reopened. This led to a long continued speculative activity in exchange transactions which delayed the effect of the permanent and ordinary causes which have since asserted their power. Confidence has now been restored in the intention of the Government of India to work out the experiment till a gold standard is established, and there is a fair degree of confidence that its efforts will in time be successful.

15. I believe that this slowly gained confidence would be seriously shaken if not entirely shattered by a sudden announcement of the alteration of the rate of 1s. 4d. in the Notifications Nos. 2662 and 2663, dated the 26th June 1893, to 1s. 3d. No amount of assurance or protestations will induce the public to believe that the change is made with the object of securing the immediate or earlier establishment of a gold standard: they will feel convinced that the reason is that the Government has given up all hopes of being able to establish a 16s-penny rupee, that it thinks it may make another attempt on the lower basis of 15 pence, but will be prepared if that attempt also fails to make another retreat down to 14 pence, and ultimately to abandon the whole policy and reopen the mints. Being persuaded of this, the merchants and speculators will take measures to protect themselves by making their arrangements on the supposition of a fall in exchange in the future, which they believe the Government to foresee: and those measures will have very powerful effect towards causing such a fall. The destruction of confidence will thus prevent us from ever reaching, or at any rate from maintaining for any time, a rate of 1s. 3d.; and in my opinion we are likely to reach a rate of 1s. 4d. by leaving things as they are at an earlier date than we shall reach 1s. 3d. if the proposed change is made.

16. It will be said that there would be no solid ground or basis for the beliefs which I say the public will entertain in the supposed circumstances. I think, nevertheless, that the experience of the two years or two years and a half following the closing of the mints shows that that fact would not prevent the beliefs arising or action being taken in accordance therewith. The currency experiment now proceeding is one which requires delicate treatment, and it is necessary to avoid any step which may give rise to misunderstanding or may possibly be made a ground for attributing to the Government hesitation, irresolution or doubt as to success of the experiment.

II.—EFFECTS OF THE RAILWAY PROGRAMME AND OF THE ANTICIPATED FAMINE.

17. The Honourable Member makes his proposal at the present time* because he anticipates that the large reduction of the Secretary of State's drawings next year, necessitated by the programme of Railway construction which has been adopted, and the demand for remittances from England to India of capital for investment in Indian Railways outside that programme, will have a sudden and considerable effect in the way of raising the rate of exchange.

18. Now if next year were likely to be normal in other respects than the large railway expenditure, if there were no fear of impending famine, I

* See the footnote of paragraph 3 of this note.

venture respectfully to think that the effect of a reduction of 2½ or 3 million pounds in the year's drawings—spread over twelve months and made after ample notice—has been exaggerated in the Honourable Member's note of the 9th October 1896 on the financial aspects of the Railway programme and in his note of the 19th October. Mr. O'Connor, whom I consulted on the subject, agreed with me in thinking that the reduction, spread over twelve months and duly announced in ordinary course beforehand, would not have a very great effect on trade or exchange in a normal year.

19. Trade conditions however are not now normal, and they will be still less normal next year. There will be a widespread failure of crops, and a severe famine seems only too probable. The result will be a heavy reduction in the net exports of India, and consequently in the trade demand for Council Bills. This will necessitate a reduction of the Secretary of State's drawings probably by more than 2½ or 3 millions. The expected famine will therefore more than counterbalance any effects which the Railway programme may have in the direction of raising exchange.

20. Mr. O'Connor left Simla on Tuesday, but just before he left he wrote some hurried notes for me on this subject. I give the following extract:—

"No wheat will be exported next year, and there will also be little, if any, export of linseed and rapeseed. The cotton crop is very deficient, the prospects of the crop in Behar and the North-West for next year are very bad, the jute crop is not good, and the rice crop in Bengal is poor. Prices for rice and such other food-grains as are available will be raised to a level which will prevent export. I estimate that we shall probably see in next year's exports a diminution of the value of the articles undermentioned to at least the extent specified:

	Rx. (millions)
Rice	4.5
Wheat	4
Other goods	0.2
Indigo	2
Cotton	6
Jute	1
Linseed	3
Rapeseed	1
Tilseed	1

"The aggregate is between 22 and 23 millions of Rx. There may be some increase in other directions—increased exports of hides and skins, also of goods from the North-West, but on the whole, I am inclined to think that, so wide is the area of failure, the net exports will be 15 to 20 millions of Rx. smaller next year than in 1895-96. The decline is now, and it will be accentuated as the months follow each other. I do not think that the imports will be correspondingly diminished, though no doubt some of the imports, and those the most important, are indigenous to the Indian industry (machinery and millwork, metals, railway materials, and such things as cotton goods in which there is an irreducible minimum). In the event of a reduction of the ordinary import trade we must set the extraordinary requirements which will be required. These will probably set off a large increase in the ordinary import trade, and I think it probable that while the ordinary trade is seriously contracted next year, the volume of imports will not be correspondingly reduced.

And Mr. O'Connor told me that, in his opinion, reduction of the Secretary of State's drawings in 1897-98 will hardly be sufficient to prevent a fall in exchange.

21. If the above anticipations are well founded, it appears that the effects of the impending famine will more than counterbalance the effects of the Railway programme on exchange. I much fear that the result will be a fall in the rate of exchange: there is no reasonable ground to anticipate that there will be a rapid rise in the rate of exchange.

22. Exchange is now trending steadily upwards, and will probably, in the remainder of the current year, continue to rise in the ordinary course of events. But I do not think there is much fear or hope of its rising much above 1s. 3d. this cold weather. The reduction of the drawings next year can of course have no effect before March next, as it will not be announced till that month, and the reduction of exports caused by the failure of crops will tend to make the rise this cold weather less than it would otherwise have been.

23. My conclusion therefore on the special circumstances connected with the Railway programme and the impending famine is that there is no reason to anticipate that there will be any rapid and considerable rise in the rate of exchange such as the Honourable Member fears and desires to guard against.

24. There remains another consideration which is discussed in paragraph 23 of the Honourable Member's note. It is that the famine combined with the stringency of the money market, may create a demand for a larger number of rupees for circulation in India than at present exist, and that, under the present condition, there is no means of meeting this demand. I admit the gravity of this consideration : it arises from the present transition stage of the currency policy : there is now no automatic means by which the currency can expand in response to the demands of the country and trade. For the reasons I have stated in paragraph 15 of this note, I do not believe that the reduction from 1s. 4d. to 1s. 3d. of the rate at which gold will be received would provide the missing safety-valve : the effect of the announcement of the change would be to prevent exchange reaching or at any rate remaining at even the lower rate.

25. The measure which I would hold in reserve to meet the contingency contemplated *if and when it arises*, would be the purchase of silver by the Government for coinage into rupees. The silver would be obtainable very easily and quickly, and there is no necessity to make or at any rate to announce any preparations beforehand : it is merely necessary to decide that that would be the measure to be taken.

26. I hope that the contingency may not arrive, as I should be very sorry to see the coinage of rupees recommenced before the rate of 1s. 4d. contemplated for that purpose is reached. But if the measure has to be adopted, it will be adopted for reasons patent to the whole world,—the strain of a famine and the stringency of the money market and the temporary scarcity of the circulating medium in the country and especially in the Presidency Towns—and I hope that the adoption of it for those purely temporary and well known reasons would not lead to any misunderstanding or deliberate misinterpretation of the intentions or expectations of the Government of India in regard to its currency policy. (I may mention that when the draft of the Bill closing the mints was prepared in December 1892, Sir A. Miller proposed to insert sections regarding the coinage of rupees on behalf of the Government, as he thought it might be desirable to show on the face of the Bill "that we contemplated continuing to coin as much as might be needed." These provisions were omitted at Sir D. Barbour's request, on the ground that they were superfluous, and that without them the Government would have full power to purchase and coin into rupees as much silver as might be desired.)

27. I must say before I conclude that I recognise and share to the full the Honourable Member's anxiety as to the difficulty of financing the Government of India through next year : it arises from the magnitude of the Railway programme and the demands which the famine will bring upon us. But the permanent and overwhelming importance of carrying the currency policy to a successful issue leads me to urge that we ought not to be induced by that most just

anxiety to propose any modification of the currency scheme except under the most pressing and abnormal conditions actually present or immediately impending beyond the possibility of doubt. Even the measure I have suggested in paragraph 25 as the one to be held in reserve for adoption when necessary ought not to be adopted, much less announced, one moment before the necessity for some measure to meet the contingency feared is abundantly apparent.

I may mention one consideration which may be thought germane to the matter, though I do not think that the Government of India ought to be deterred by it from proposing any measure which it after consideration considers both desirable and of importance. It is that there is almost no prospect that the Secretary of State would accord his sanction to a proposal to lower the rate to *1s. 3d.* The object of the proposal and its effect, if successful, would be to attract gold to India. This is not an object which the Secretary of State would be allowed by his colleagues in the Cabinet and his London advisers to advance at a time when the fears of the London financial world already are that gold may be withdrawn from London to a most inconvenient extent.

LV.

DESPATCH FROM THE SECRETARY OF STATE FOR INDIA, TO THE GOVERNMENT OF INDIA, No. 129 (FINANCIAL), DATED 5TH AUGUST, 1897.

Your Excellency is aware that special envoys from the United States and the Ambassador of France have had interviews with members of Her Majesty's Government in order to discuss the subject of currency reform, in which the Governments of both those countries are at present much interested.

2. The result of those discussions is that Her Majesty's Government have been asked whether, on certain conditions, the question of re-opening the Indian mints, which have been closed since 1893, would be taken into consideration.

3. Her Majesty's Government understand that the Governments of France and of the United States desire to open their mints to the free coinage of silver, as well as of gold, such silver to be made legal tender to an unlimited amount at a ratio of $15\frac{1}{2}$ of silver to 1 of gold, provided that they are satisfied they would receive such assistance from other Powers in increasing the demand for silver as would, in their opinion, justify them in such a policy. They propose to summon an International Conference to deal with the matter, if they are led to believe, by the preliminary inquiry which they are now undertaking, that such a Conference would arrive at any satisfactory result; and they ask whether, if their mints were opened as suggested, your Excellency's Government would undertake to re-open concurrently the Indian mints to the free coinage of silver, and to repeal the order which made the sovereign legal tender in India. It would, in this case, be clearly understood that no action shall be taken by you until you are satisfied that the intentions and undertakings of the two Governments will undoubtedly be carried into effect.

4. Her Majesty's Government have replied that they will consult your Excellency's Government upon these proposals, and I invite you accordingly to give them your most careful consideration.

5. It is argued that, on the one hand, very great advantages would be gained for India under an arrangement which could not fail to have the effect of raising materially the gold value of silver, and consequently of the rupee, and which, if it were maintained, would give a good prospect of a more stable ratio, when once the first disturbance was over, than has been known for many years. In that case heavy loss which is now sustained both by your Government and by all individuals who depend upon a silver currency for the payment of liabilities contracted in gold, would, in all likelihood, disappear; and holders of rupee values would benefit greatly the increased command of sterling by values which such a change would necessarily give them.

6. The present system, however great may be the benefits which it has conferred, may appear to be one of artificial and arbitrary restriction, which is thought by some to have an injurious effect on the course of trade, and the fact of its removal would have the advantage of leaving the expansion and contraction of the currency to the natural force of the market. I believe, moreover, that your Excellency will agree with me in thinking that the maintenance of the exchange value of the rupee at a point considerably above the intrinsic value of the silver which it contains is not without inconvenience and that a policy which without lowering exchange would restore the rupee to a value practically unmodified by mint regulations, has much to recommend it.

7. On the other hand, there are certain objections which will readily occur to your Excellency, such as the disturbance and dislocation of trade which might perhaps follow a great alteration in the rate of exchange, and the possibility, however remote, that the value of the rupee, as measured in commodities in India, would be so far enhanced as to cause discontent by increasing seriously the amount payable as taxation.

8. A more serious question, in my opinion, is whether the combination of only two Governments, even though the countries which they represent are as important financially as France and the United States, is sufficient to give such a reasonable promise of stability and permanence to an arrangement of this nature as would justify India in facing the undeniable risks and inconveniences attaching to such a change in her system of currency. No doubt, however, the conclusions to be formed on this aspect of the question must in part depend on the terms of the arrangement made between the Governments concerned.

9. In conclusion, I will remind your Excellency that in 1892 the policy of closing the mints was only recommended by your Excellency's predecessor in Council on the ground that an international arrangement, similar to that which is now contemplated, was not then obtainable. This is clearly stated in the Letters of Lord Lansdowne's Government, dated 23rd March and 21st June 1892, and I shall be glad to learn whether your Excellency sees any reason to modify the views therein expressed, and, if so, on what grounds.

10. The question involves issues of such magnitude that I cannot ask your Excellency to reply to this Despatch without taking such time as you may require for full deliberation and confidential discussion. As, however, it is important that Her Majesty's Government should, as soon as possible, be in a position to give an answer to the French and American representatives, I trust that you will at once undertake the consideration of the matter, and that you will let me know your views without any unnecessary delay.

LVI.

DESPATCH TO HER MAJESTY'S SECRETARY OF STATE FOR INDIA, No. 261,
DATED THE 16TH SEPTEMBER 1897.

We have the honour to acknowledge receipt of Your Lordship's despatch No. 129 of August 5, 1897, asking for our opinion whether the Indian mints may be re-opened to silver as part of a contemplated arrangement under which France and the United States of America will open their mints to silver as well as gold.

2. The present currency systems of the three countries may be thus described. France and the United States both have a gold standard; the mints are open to gold and closed to silver; but gold and silver coins are alike legal tender to an unlimited amount in both countries, at a ratio of $15\frac{1}{2}$ to 1 in the former and of 16 to 1 in the latter. The currency system of India is in a transition state: the Government of India in 1893 decided to establish a gold standard; and the first step towards that object was the closing of the mints to silver by Act VIII of 1893. The silver rupee is still the sole legal tender coin, though the Government has by executive orders undertaken to receive gold and sovereigns under certain restrictions set forth in Notifications No. 2662 and No. 2663 of June 26, 1893, the rate of exchange adopted being 16*d.* the rupee or Rs. 15=£1. The measures to be taken when the transition period has passed have not been laid down, but it is probable that the Indian mints will be opened to gold, and gold coins will be made legal tender to an unlimited amount; silver rupees would also continue to be legal tender to an unlimited amount, and the ratio between the rupee and the gold coins as legal tender would at the same time be finally settled. The system towards which India is moving is thus a gold standard of the same kind as that which now exists in France and the United States, but with a different ratio for legal tender; but for the present the mints are closed both to gold and silver. The transition period has lasted for more than four years, but there is ground for hope that it is now drawing to a close.

3. The changes which are involved in the arrangements proposed to Her Majesty's Government are the following. France and the United States are to open their mints to the free coinage of silver, continuing the free coinage of gold and the unlimited legal tender of coins of both metals, the ratio remaining unchanged in France and being altered to the French ratio of $15\frac{1}{2}$ to 1 in the United States. India is to open her mints to silver, to keep them closed to gold, and to undertake not to make gold legal tender. France and the United States would thus be bimetallic; India would be monometallic (silver); while most of the other important countries of the world would be monometallic (gold).

4. The object which the proposers have in view is the establishment of a stable relation between the values of gold and of silver. This would include the establishment of a stable exchange between the rupee and sterling currency, which was the object of the Government of India in the proposals made in our Financial despatch No. 160 of June 21, 1892, which proposals ultimately resulted in the adoption, in view to the attainment of that object,

of the policy of a gold standard, and in the closing of the mints to the free coinage of silver.

If then it were certain that the suggested measures would result in the establishment of a stable ratio, the Government of India might well consider whether their adoption would not be preferable to the policy to which they committed themselves in 1893 in the hope of attaining the same result by isolated action on the part of India alone. The principal questions therefore for us to consider are whether the measures are more likely to succeed than the policy of 1893, and what consequences to India may be apprehended if the measures should fail of success after being brought into operation. From this point of view we propose to discuss the effect on trade and industry and on our own revenues, of the changes when made, and of the failure of the arrangement if it should fail, the chances of success, and the risks of failure.

5. The first result of the suggested measures, if they even temporarily succeed in their object, would be an intense disturbance of Indian trade and industry by the sudden rise in the rate of exchange which, if the ratio adopted were $15\frac{1}{2}$ to 1, would be a rise from about $16d.$ to about $23d.$ the rupee. Such a rise is enough to kill our export trade, for the time at least. If the public were not convinced that the arrangement would have the effect intended, or believed that it would not be permanent, the paralysis of trade and industry would be prolonged and accompanied by acute individual suffering; none of the advantages expected would be attained; and the country would pass through a critical period which would retard its progress for years. How long the crisis would last before normal or stable conditions were restored it is not possible to conjecture. It would be long even if the mercantile and banking community saw that silver was being steadily maintained at the prescribed ratio, while any indication of unsteadiness would greatly prolong the period by giving foundation for doubt. If the doubt should happen to be justified by the results, the position would be disastrous alike to the State, to individuals, and to trade generally. The exchange value of the rupee having risen suddenly, without any intermediate steps, from $16d.$ to some higher figure, it would fall quite as suddenly to a point far lower than its present level, probably to $9d.$, or even lower. Such a fall would, apart from other disastrous results, necessitate the imposition of additional taxation to the extent of many crores.

6. We may here remind Your Lordship that such an agreement as is proposed is an infinitely more serious question for India than for either of the other two countries; for it seems clear that practically the whole risk of disaster from failure would fall on India alone. What would happen in each of the three countries if the agreement broke down and came to an end? France possesses a large stock of gold and the United States are at present in the same situation as France though the stock of that metal is not so large. It may be admitted that if no precautions were taken these gold reserves might disappear under the operation of the agreement, and in the event of the experiment ultimately failed, the two countries concerned would suffer a heavy loss. But it is inconceivable that precautions would not be taken in all such events so soon as the danger of the depletion of the gold reserves is apparent in itself, and therefore it is probable that no particular change would be made in the monetary system of France or the United States, the only effect of the agreement being a coinage of silver which would terminate with the termination of the agreement. Thus the whole cost of the failure, if the arrangement should fail, would be borne by India. Here the rupee would rise

swiftness, it would keep steady for a time, and then, when the collapse came, it would fall headlong. What course could we then adopt to prevent the fluctuation of the exchange value of our standard of value with the fluctuations in the price of silver? We do not think that any remedy would be open to us, for if the Indian mints were re-opened to silver now, it would, in our opinion, be practically impossible for the Government of India ever to close them again; and even if they were closed it would only be after very large additions had been made to the amount of silver in circulation.

7. There is another important consideration in which India is affected in a manner different from France and the United States. The effect of the scheme will probably be an increase in gold prices (that is, in the prices current in France and in the United States) and a fall in silver prices (that is in the prices current in India). This is not the place in which to discuss the economic effects of a rise or a fall in prices, a matter in respect of which there may be difference of opinion. But we presume that France and the United States contemplate with equanimity the possible effects of the change of prices upon their trade and production generally, while it is manifestly impossible for us, affected as we are in the opposite direction, to take the same view.

8. Moreover, it seems to us somewhat unfair to expect that India should, after its struggles and difficulties of the last decade, consider itself on the same plane in the discussion of these projects, as France and the United States. India has since 1893 passed through a period of serious tension and embarrassment alike to trade and to the Government. We are satisfied that, great as have been the troubles which have attended this period of transition, the attainment in the end of the paramount object of stability in exchange is worth more than all the sacrifices made. We believe that our difficulties are now nearly over and that we shall in the near future succeed in establishing a stable exchange at 16*d.* the rupee by continuing the policy initiated in 1893.

9. The United States are possibly, in part at least, inspired, in making these proposals, by the idea that they may have before them some of the difficulties and dangers which we have experienced. We need not say that if our way was clear before us, the consideration that another and a friendly nation would derive benefit from the course adopted by us, would present itself to our minds as a good reason for the adoption of a course of action which would have that result. But the case is quite different when, on the eve of emerging with success, by our own unaided efforts, from the monetary disturbances of the last twenty years, we are asked, in view of the benefit to other nations, to throw away the advantages we have gained and plunge into a new period of struggle and change. Only the most absolute certainty of early and permanent success would warrant our acceptance of such a position. We cannot help seeing that if the policy of 1893 is now abandoned, and if the triple union now proposed as a substitute should fail in its operation or should terminate, and in its failure subject Indian trade to the violent shocks we have described, the Government of India could not, as a responsible Government, call upon the commercial public to face another prolonged period of doubt, suspense, agitation, and difficulties. For it must be clearly and fully recognised that if India joins in the proposed measures, we shall be left dependent, as the sole means of attaining stability in exchange, on the success of those measures, and that if they should fail, India must be content to remain permanently under the silver standard with all its admitted disadvantages.

10. If then there is any reasonable doubt of the success of the suggested measures, we are of opinion that we ought to refuse to co-operate and should maintain our freedom to watch the course of events and take such action from time to time as these may render expedient. A possibility or even a probability that the efforts of France and the United States might meet with success would not be enough to justify us in parting with our freedom or doing anything to further an experiment which, if it fails, will entail consequences to the trade and finances of India which must be described, without any exaggeration, as disastrous.

11. We have given very careful consideration to the question whether France and the United States are likely, with the help of India, to be able to maintain the relative value of gold and silver permanently at the ratio they intend to adopt, and have come to the conclusion that while we admit a possibility of the arrangements proposed resulting in the permanent maintenance of the value of gold and silver at the ratio of 15½ to 1, the probability is that they will fail to secure that result; and that it is quite impossible to hold that there is anything approaching a practical certainty of their doing so.

12. One reason for this conclusion is that the arrangement would rest on too narrow a basis. A union consisting of two countries, with a third lending assistance, is a very different thing from the general international union of all or most of the important countries of the world, which was advocated by the Government of India in the despatches of March and June 1892 and of February and September 1886.

13. To afford a hope that a monetary union will succeed in establishing stability in the relative value of gold and silver, it is essential that the nations adhering to it should be of such number and importance that the metallic currency of the whole body shall be of sufficient extent to allow of the exercise of adequate influence on the value of the two metals. We doubt whether any two or even three nations in the world, unless indeed one of them was Great Britain, could comply with this condition, and we have no hesitation in saying that France and the United States and India certainly could not. The intended ratio assigns to coined silver a much higher value than the present market value of silver; and the market value could only be raised by transferring the demand for coinage from gold to silver. But France, the United States, and India all possess a very large stock of silver coin, and it is doubtful whether there is much room in them for a large increase in the silver coinage except by the displacement in France and the United States of the existing gold coins. It is quite possible that the whole of the gold coinage of both France and the United States might disappear and be replaced by silver coins before the market value of silver was raised to the intended ratio with gold. Whether the Governments of those countries will allow a total displacement of their gold by silver coins and the possible export from the country of the entire stock of gold is, as we explain in paragraphs 6 and 17 of this despatch, open to more than doubt: and in so far as either enforces measures to prevent gold from being exported, the power of the union, and possibly also its desire, to effect its object will be diminished.

14. A further doubt occurs to us in the possibility that either France or the United States may, for reasons which will suggest themselves to the Lordship, be reduced for a time to a paper currency. If this should happen, the arrangement would cease to operate for an indefinite period under the stress of circumstances. This possibility, though of no importance in the case of a union

comprising all the important countries of the world, cannot be disregarded when two or three countries only form the union.

15. Another important source of doubt lies in the consideration that a three-sided agreement is open to much greater risk of termination by the action of one or two of the parties than a many-sided agreement such as the Government of India advocated before 1893. In the latter all the commercial countries would be in the union and all would be in an equal position; there would be no ground for supposing that the operation of the agreement benefited one country at the expense of another. There would therefore be no substantial inducement for withdrawal from the régime adopted by common consent; the union might for practical purposes continue to subsist and to produce its effect even after the dissenting country had withdrawn. On the other hand, in a three-sided agreement such as is now proposed, France, for instance, might any day find some reason for thinking that Germany was obtaining some advantage at her expense in consequence of the great difference in the standard of value, or in the same way the United States might suppose that Canada was obtaining an advantage; and thereupon discussions might ensue as to the expediency of terminating the agreement which would have only a less serious effect than its actual termination.

16. We cannot overlook the fact that the proposals now before us come from two great powers whose policy is under existing circumstances peculiarly liable to be affected by considerations of this kind. The frequent changes of Ministry in France cannot but result in a feeling of uncertainty; while the recent history of the Presidential Election in the United States shows how readily fiscal arrangements may be made part of a party programme and their continuance may depend on the chances of a party triumph.

17. Another reason for anticipating that the proposed agreement is not likely to succeed will be found in the considerations mentioned in paragraph 6 regarding the improbability of France and the United States allowing their gold reserve to disappear. We attach great importance to these considerations because we are convinced that they vitally affect the prospects of any agreement being successfully carried out. With the precautions to which we have referred the experiment might be continued, for the risk to the two nations would be very small. But without these precautions or if they proved to be inadequate for their purpose, *i.e.*, the retention of a sufficient stock of gold, we believe the inducement to abandon the experiment would be very strong, and if even one country adopted that course it would be impossible to prevent the whole agreement breaking down.

18. For these reasons alone, without taking into consideration the objections based on the particular ratio proposed, which we shall separately discuss, we have no hesitation in recommending Your Lordship to refuse to give the undertaking desired by the Governments of France and the United States. We are quite clearly of opinion that the interests of India demand that her mints shall not be opened as part of an arrangement to which two or three countries only are parties, and which does not include Great Britain.

19. We note that the proposals of the Governments of France and the United States are subject to the proviso that they are satisfied that they will receive assistance from other Powers in increasing the demand for silver. We believe that a limited increase of the quantity of silver used as currency will exercise a very trifling influence, if any, in raising the gold price of silver, and that the only assistance from other Powers which can be of any real value

would be the addition of other countries to the bimetallic union of France and the United States. If, however, assurances of really substantial co-operation should be secured from other countries, we shall be glad to learn the exact nature of the assurances, and we shall then consider whether the promised co-operation changes the conditions of the problem or adds materially to the chances of success.

20. We believe, however, that whatever inducements are held out to us by other nations, our best policy in monetary matters is to link our system with that of Great Britain. Our commercial connexions with that country are far more important than those with all the rest of the world put together, and more than a sixth part of our expenditure is incurred in that country, and measured in its currency. The advantages, which in this respect we gain by following the lead of Great Britain, are not obtained, or not fully obtained, if we become members of a monetary union in which Great Britain takes no part. And, indeed, as we have already explained, we have little hope of an efficient union being formed unless Great Britain is a member. We think it a reasonable position for us to take with regard to the present proposals by France and the United States, that we should say that the Government of India strove long and earnestly to further the formation of an international Union: that when they saw that the opposition of England rendered impossible the attainment of that object within any measurable time, they temporarily abandoned their efforts in that direction and decided, as the least prejudicial of the courses open to them, to throw in their lot with Great Britain and to adopt the gold standard: that, as it appears improbable that an effective union will be formed without the adhesion of Great Britain, and as the measures adopted to introduce a gold standard in India are now approaching final success, they consider that it will be wisest to adhere to the course adopted in 1893 until Great Britain is prepared to join in international bimetallicism; and that they therefore wish to adhere to the same monetary standard as Great Britain, with which nation they are most closely linked both in respect of their commercial relations and in all other respects, and to refrain from becoming a party to arrangements with other nations in which Great Britain sees ample reason for refusing to join.

21. So far, the arguments we have offered, in discussing the chances of success or failure of the arrangement, have been independent of consideration of the precise ratio proposed by France and United States. We have objected to the arrangement on grounds which apply to it whatever be the ratio adopted, but we must add that our objections are greatly strengthened by the fact that so high a ratio is proposed as 15½ to 1. It seems to us that the difficulty of making the arrangement effective will be immensely increased by the adoption of a ratio differing so widely from the present market ratio. Indeed, even if it could be maintained successfully, we should object to that ratio in the interests of India, and we recommend that Your Lordship should, on behalf of India, decline to participate in or do anything to encourage the formation of a union based on that ratio.

22. We have said in paragraph 5 that the first result of the proposed arrangement would be an immediate disturbance of trade and industry by the advance of the exchange value of the rupee, which will be very intense if the rise is from between 15 and 16 pence to about 23 pence. The effect of that rise would be to throw some branches of the export trade and the industries connected therewith (the planting industries for example

in which a large amount of European capital has been embarked) into the most depressed condition for some time at least. The period of depression might be long or comparatively short, though there are authorities who are inclined to attribute a permanently disastrous effect to such a large and sudden rise in exchange and to apprehend that Indian commerce might be utterly shaken by the change.

In any case, we are of opinion that the true interests of India demand that any measures for attaining stability in the rate of exchange between gold and silver should be based upon a rate not greatly differing from 16*d.* the rupee, and that any measure which would raise the rupee materially higher than that level involves great dangers for which we see no adequate compensations. Your Lordship will observe that we attach no special importance to the advantages to be derived from the proposed considerable rise in exchange, mentioned in paragraph 5 of your despatch, and consider them to be far outweighed by the resulting evils.

23. Pressed as we have been for many years by the difficulty of finding the continually increasing number of rupees requisite to discharge our sterling liabilities, we are apt to look too exclusively at the effect which a rise of exchange would have in diminishing the burden of that demand upon us. We do not deny that a large surplus of revenue will arise from so great an improvement in exchange; but it is not to be forgotten that there are many respects in which our revenue account must directly suffer by a rise in the exchange value of the rupee, and that these considerations ought to greatly influence our estimate of the benefit to our revenue account which is almost the sole advantage which, as a Government, we can expect to obtain from the proposed measures.

The anticipated fall in prices is one that will adversely affect both our revenues and the general condition of the agricultural classes in the country. To take the case of our Land Revenue, a very large portion of the country has passed under Land Revenue Settlement during the last ten or fifteen years. One of the factors in fixing the demand of the Government for revenue is the price of agricultural produce; if that price falls away, the heavier the demand becomes, and if it falls away materially the relation between the price that the ryot can obtain for his produce and the assessment he has to meet may be so seriously altered as to affect the agricultural prosperity of large tracts of country. The work of re-settlement is a tedious one, it cannot be effected in all probability for some years, and when it is effected it will *pro tanto* dissipate much of the advantage which the rise of exchange would bring to the Government account.

So, also, as regards our Railway Revenues, which are now so important a portion of our income. They are in part directly dependent upon the activity of the export trade, and a blow struck at that trade will be felt by us immediately and directly through our railway account.

24. For these reasons therefore, in addition to those set forth in the earlier portion of this despatch, we recommend that the reply to the request of the Governments of France and the United States should be in the negative. We presume that a union based upon a ratio low enough to suit our interests would be unacceptable to France and the United States.

25. With reference to paragraph 6 of Your Lordship's despatch, we invite attention to the description of the present currency system of India

given in paragraph 2 above. There appears to be some misapprehension in the comparison drawn between the arrangement proposed by the United States and France and the "present system" in India. The present system is of course open to the objection that it is one of artificial restriction, but it is essential to bear in mind that it is not a permanent system or indeed a system at all. We are in a transition period, moving from one system to another, and the present artificial restriction is merely a temporary expedient which has for its sole object the acceleration of the movement and which will cease to exist with the completion of the movement. Thereafter the expansion and contraction of the currency will be left to the natural forces of the market, that is, it will be regulated automatically by the inflow and outflow of gold.

26. It is true that the system will be open to the other objection stated in paragraph 6 of the despatch, that the rupee will continue to remain at a value above its metallic value, but—as was pointed out by Lord Herschell's Committee—this is an objection which has not made itself seriously felt in the other countries, including France and the United States, in which an analogous system has been in operation for many years. It is not likely that the objection will make itself seriously felt in India when the gold standard has been effectively introduced.

27. The question really is not one of comparison, as put by Your Lordship, between the present temporary expedient in India and the arrangement proposed, but between a gold standard and the proposed arrangement, which involves the abandonment of the policy of a gold standard, adopted in 1893, in favour of reversion to the policy of a silver standard.

28. In paragraph 9 of the despatch, Your Lordship reminds us that "in 1892 the policy of closing the mints was only recommended" by Lord Lansdowne's Government "on the ground that an international arrangement, similar to that which is now contemplated, was not then obtainable," and we are asked to say whether we see any reason to modify the views expressed in that sense in the despatches No. 63 of March 23 and No. 160 of June 21, 1892.

In reply we have first to point out that the international arrangement which Lord Lansdowne's Government contemplated is very far from being similar to that which is now proposed. The proposal now under consideration is for a union of two countries only, with some assistance from a third: the international arrangement contemplated in 1892 was a general bimetallic union of all important nations, or, to use the words of the despatch No. 277 of September 4, 1886, which is referred to in paragraph 2 of the despatch of June 21, 1892, as expressing the views held by Lord Lansdowne's Government, "an international agreement for the free coinage of silver and the making of both gold and silver coin a legal tender at a fixed ratio by of nations possessed of a metallic currency of sufficient extent to that ratio permanently." We have already stated our opinion that the agreement now proposed does not fulfil the last named essential c

Secondly, circumstances have essentially altered since 1892. Despairing of securing the adoption of any of the measures which they had persistently urged, the Government of India decided to attempt the establishment of a gold standard and, as the first step, closed the mints to the coinage of silver tendered by the public. If the proposals now made had been made in 1892 or at any time before June 1893, it is conceivable that the Government of

India of that time would have welcomed them as containing a possibility of securing the objects they desired, and would, in order to secure their adoption, have agreed to postpone the closing of the mints and to keep them open for a period sufficient to allow a full trial to the measures of France and the United States, say for five years. But our position is now very different. The experience of the last three or four years has cleared up many doubts which were present to our predecessors' minds in 1893, and it has taught us that the course we actually adopted in 1893 really had in it better chances of success than the alternative of a partial international agreement. To agree not to close mints, still open, for a definite time, and to agree to reopen closed mints, are two very different things. The former course would have been justifiable if the measures proposed were such as to afford a reasonable expectation of securing the main object of the Government of India, namely, stability in the rate of exchange. The latter is entirely unjustifiable, unless the measure afford a practical certainty of securing that object.

29. The conditions under which we have had to reply to Your Lordship's despatch preclude our consulting the commercial and banking communities in this country, although the subject is one in which they are, as we have explained, most closely interested. It was only after prolonged public discussion, and after a formal examination by a Committee of experts, that the policy of 1893 was adopted; and if we thought it our duty to advocate a change in that policy instead of to set out the strong objections which we see to its abandonment, we would, nevertheless, strongly deprecate any steps of the kind being taken without the fullest preliminary consideration on the part of the banking and commercial bodies in this country.

30. To sum up, our reply to Your Lordship's reference is a strong recommendation that you should decline to give the undertaking desired by France and the United States. Our unanimous and decided opinion is that, it would be most unwise to reopen the mints as part of the proposed arrangements, specially at a time when we are to all appearance approaching the attainment of stability in exchange by the operation of our own isolated and independent action.

LVII.

NOTIFICATION BY THE GOVERNMENT OF INDIA, FINANCE AND COMMERCE
DEPARTMENT, No. 4071, DATED 11TH SEPTEMBER 1897.

In continuation of the Notifications No. 2662, No. 2663, and No. 2664, dated June 26th, 1893, the Governor General in Council hereby notifies for public information that, from and after the date of this Notification, sovereigns and half-sovereigns of current weight coined at any authorised Royal Mint in England or Australia will be received at the Reserve Treasuries at Calcutta, Madras and Bombay, and rupees will be issued in exchange therefor, the sovereign and half-sovereign being taken as the equivalent of fifteen rupees and of seven rupees eight annas respectively.

LVIII.

DESPATCH TO SECRETARY OF STATE, No. 70, DATED THE 3RD MARCH 1893.

During the period which has elapsed since we wrote our despatch of September 16, 1897, No. 261, our attention has been drawn by circumstances to the pressing necessity of taking active measures to secure the stability of exchange which was the main object of the policy adopted in June 1893.

2. Our experience since 1893 has put beyond doubt one of the main principles upon which the legislation of that year was based,—a principle which was challenged at the time,—namely, that a contraction in the volume of our silver currency, with reference to the demands of trade, has the direct effect of raising its exchangeable value in relation to gold. Before 1893, while the mints were yet open, the value of the rupee as measured in gold continually declined with the decline in the value of silver; but since 1893, although the value of silver as a metal has continued, speaking generally, to decrease, the decrease in the value of the rupee has been arrested. The main difference in the conditions of the two periods was that before 1893 the amount of coin in circulation was allowed to increase automatically so as to be sufficient to meet the demands of trade at its reduced value, while since 1893, this automatic increase being stopped, the value of the rupee has been determined rather by the amount of coinage in circulation than by its intrinsic worth. We are justified in coming to the conclusion that if the measures taken in 1893 had been taken at an earlier date, and the increase which took place in the amount of coin in circulation for some years before 1893 had been prevented, the rupee would never have fallen so low in value as sixteen pence. It would follow from this that if we could now restore the circulation to the condition in which it was a few years before 1893 and could in some way reverse the increase of circulation which has intermediately taken place, we should effect the object of raising the value to at least sixteen pence.

3. The scheme of 1893 did actually contemplate, as we shall presently show, this reversal of the increase of circulation effected during the years immediately preceding, but so far as it has hitherto been carried into effect, it has merely stopped further increase. The average annual addition to the currency when the mints were open was about seven crores, of which, however, a part only, perhaps half, was a permanent addition, an amount equivalent to the remainder being removed from the circulation principally for the purpose of conversion into silver ornaments. It was hoped that the stoppage of an annual addition of this magnitude to the rupee currency and the gradual contraction of the currency which always occurs under the operation of ordinary causes, such as the withdrawal of coins reduced below the current weight by wear and tear and the loss or disappearance from circulation of coins, would, in the presence of the increasing demands of a continually expanding trade, suffice within a limited time to remove the effect of such increase of coinage as had taken place within a few years immediately preceding 1893, and thus restore the exchange value of the rupee to sixteen pence.

4. It was supposed at first that the process would not be unduly prolonged; but experience soon indicated that the amount of coin to be withdrawn before a rate of sixteen pence could be made operative was very large indeed. The suspension of the Secretary of State's drawings in 1893-94 and the consequent withdrawal of about 10 or 11 crores from the circulation proved insufficient even in the busy season to maintain the rupee at an exchange rate of 15½. It soon became evident also that new influences of an adverse nature had been called into play, and that the process of raising the rupee to the desired exchange value might be prolonged, and might be accompanied by fluctuations which, though not nearly approaching those of the past, were yet sufficiently large to cause great inconvenience both to the public in carrying out the operations of trade and to us in the management of the Government finances. Immediately after the closure of the mints, there was a considerable importation of rupees into India from other countries in which they circulated, though this continued for only a few months, and on the whole there has been, since October 1893, a net exportation of rupees from India amounting, in the case of exportation by sea alone, to a sum in excess of two crores. There was probably also a return of rupees from hoards into circulation under the influence of the relative cheapness of silver. Speculative influences were also largely brought into operation, reports as to the intended re-opening of the mints being industriously circulated. Later, when the effect of these influences had been dissipated, and the exchange value of the rupee began to rise towards the level of sixteen pence, another adverse influence arose—the outcome of want of confidence on the part of the public in the future of exchange—in the desire of persons in England to convert their Indian investments (in rupee paper and otherwise) into a sterling form, and of persons in India to remit their savings and profits and even their investments to England while they could do so at a rate of exchange which they were led to believe could not be maintained. The exchange market has been greatly affected by remittances of these descriptions.

5. It is, now, therefore, clear that in June 1893 the volume of the currency was greater than was consistent with the immediate establishment of a rate of exchange of 1s. 4d. the rupee; and it will be borne in mind that, even after the mints were closed, a further increase was made by the acceptance and coinage of the silver of the Exchange Banks which was in transit. This cause of difficulty however diminishes, under the operation of the causes mentioned in paragraph 3, every year during which the mints remain closed; and it is certain that we are now much nearer a volume of currency consistent with the rate named than we were in 1893.

6. But our progress towards that rate has been greatly affected by the entirely abnormal state of trade during the last year. The exchange value of the rupee almost touched sixteen pence in the cold weather of 1896-97, and if trade had been normal instead of being injuriously restricted by the effects of plague and famine, it is possible that it would have remained at that level throughout the year at a rate more or less approximating to that named.

7. The fact that exchange attained so high a rate as that which has prevailed since December last, immediately upon the setting in of the normal conditions of trade as soon as the famine came to an end, serves to still further to indicate that, apart from the adverse circumstances which we have specified, the tendency of the exchange value of the rupee to rise, under the influence of the causes specified in paragraph 3 of this despatch;

and, though the rupee has recently somewhat fallen, we believe that this is in some measure due to the continuance of the plague in Bombay, which is undoubtedly affecting adversely the trade of that port. In our opinion, therefore, there is some reason to think that, if we could only pass that stage of distrust which appears the moment exchange approximates to sixteen pence, to bring into operation influences which interfere with the actual realisation of that rate, we might expect it, under normal conditions of trade, to attain the level at which gold would be tendered under our notification of June 26, 1893, and the introduction of the gold standard would become practicable.

8. It is, no doubt, possible that gold may be tendered in the early future, though the course of events during the month of January, and since the passing of Act II of 1898 (amending the Indian Paper Currency Act), leads us to think that it is not very probable. In any case, it is extremely unlikely to be presented in such quantity as to lead automatically to an accumulation of gold sufficient for a reserve; and, under these circumstances, we believe that it will be wiser not to pursue a course of inaction which may be prolonged indefinitely, and that it is desirable in the interests of the State and of the mercantile community to terminate the period of transition without further delay. To the State it is really cheaper in the end to acquire a reserve of gold by borrowing, and thus keep the exchange value of the rupee at a steady level of sixteen pence, than to bear for years the burden of expenditure entailed by the lower level of the rupee in the discharge of our sterling liabilities in London, in the issue of the pay of the British Army in India (that being fixed in sterling), and in the payment of exchange compensation allowances. To the mercantile community we are under some obligation to effect the prompt establishment of that fixity of exchange which was the main reason for the closure of the mints in 1893. It is not desirable that their legitimate business transactions should be hampered and embarrassed by the uncertainty of exchange, nor is it good for the country that the want of confidence in the stability of the rupee should discourage the investment of capital in India, while all available capital is remitted to England whenever the exchange value of the rupee rises to a high level. A prolongation of the period of transition may also be accompanied by recurring periods of stringency in the money market, and by inducements to speculate in exchange operations to the injury of legitimate trade. For these and other reasons, and in view of the length to which the transition period of our currency policy has already extended, we are of opinion that we ought not to wait longer for the attainment of our object by the gradual operation of the causes described, however certain we may be that they would in the end produce the desired result; and that we ought at once to take active steps to secure the early establishment of a gold standard and a stable exchange.

9. Our first endeavour should be the accumulation of that reserve of gold which, as was pointed out by Lords Farrer and Welby in their minute appended to the Report of the 1893 Commission, is a necessary preliminary to a gold standard. They thought it possible that this reserve might be automatically attained; but of this we have little hope without longer waiting than we consider advisable. We know now that one of the main reasons of this failure is that our rupee circulation had before the closing of the mints been increased to such an extent that it fully, and more than fully, supplied all the demands of trade, and allowed no room for any further addition in the form of gold. We consider therefore that the remedy for this state of things

is to remove from circulation as money, so much of the increases which were made to the circulating medium immediately before 1893 as we may find to be redundant. The necessary condition of a fixed rate of exchange between two countries is that, when the currency of one of them becomes redundant as compared with that of the other, the redundancy may be relieved by the withdrawal, for a time, of the excess coin, and we wish therefore to reach the condition in which our circulating medium (using that term in its widest sense, as embracing not only active circulation from hand to hand, but the inactive reserves of Banks and of the Treasury and the like) is not composed wholly of silver coin which has no equal value outside the country, but contains also a margin of gold which is capable of being used elsewhere as coin, and will therefore in natural course flow to where it is most wanted. Our total rupee currency is estimated to be at present somewhere about 120 crores, to which we have to add 10 crores of fiduciary circulation of currency notes. This amount may therefore be said to have been ascertained by experience to be much more than is consistent with a maintenance of a rate of sixteen pence in the season of inactive trade and to be a little more than is consistent with that rate at the time of active trade.

10. It is impossible with any exactness to say, and it can only be ascertained by actual experience, by how much this rupee circulation has to be decreased in order to remove its redundancy. (It must be remembered that redundancy is a relative term; what is sufficient for a rate of exchange of 14*d.* the rupee is necessarily redundant for a rate of 16*d.* We use the term in this despatch with reference to a rate of 16*d.* the rupee.) But some considerations point to the amount being within quite manageable limits. For example, there are 24 crores, more or less, of currency notes in circulation including the amounts held in our own treasuries. If we could imagine that amount of circulation, at present existing in the form of currency notes, suddenly converted into £16,000,000 in gold, it seems impossible that Indian trade should be able to get on without having part at least of that amount held in actual circulation; in other words, it would not be possible for the amount of gold coin to be remitted out of the country without the value of the rupee being forced up to a point which would arrest the stream of export. If this is the case, 24 crores of rupees is the outside limit of the amount which it might be necessary to convert into gold coin, in order to introduce a stable exchange of 16*d.* accompanied by an actual (active or inactive) circulation of gold at that comparative value; and it is more than probable that the amount required may really fall far short of this.

11. The mere reduction of circulation might be carried out in the same way in which it was effected in 1893, namely, by abstaining from drawing Council Bills, until we have an accumulation of, say, twenty crores in excess of our ordinary balances. But this procedure would be both costly and, believe, ineffective; in the first place the permanent locking-up of 10 crores of rupees would cost us in the interest on that amount an amount of gold borrowed in England during the suspension of drawdowns; in the second place the existence of this accumulation of silver coin would be a perpetual menace to the exchange market, and would entirely prevent any confidence in the future of the rupee. We must not only withdraw the amount from circulation, but we must show by the method we adopt that our intention is that it should cease to exist in the form of coin, and that its place, as coin, is to be taken by gold. Our proposal is therefore to melt down

existing rupees, having first provided a reserve of gold both for the practical purpose of taking the place of the silver, and in order to establish confidence in the issue of our measures.

12. With reference to the proposal to melt down rupees, we desire to invite Your Lordship's attention to the fact that an actual reduction of the silver currency was an integral part of the proposals made by the Government of India in their Despatch No. 160 of June 21, 1892, as will be seen by a reference to paragraphs 10 and 12 of the minute of the same date which sketched the method which the Government proposed to adopt for the introduction of a gold standard in India. Those proposals were ultimately adopted, and the first step to give effect to them was the passing of Act VIII of 1893 closing the mints. Just before he quitted office as Financial Member of Council Sir D. Barbour very strongly urged the adoption of this measure in paragraphs 13 and 14 of his minute of October 16, 1893, which formed an enclosure of Despatch No. 357 of November 1, 1893. The Government of India again urged the same measure in the telegram of December 30, 1893. It will thus be seen that this proposal is no new thing, but is one which has from the first been advocated by the Government of India.

13. The annual consumption of silver in India may be put down at about Rx. 6,000,000 worth. The actual figures of recent years are as follows:—

Value of net import of silver.	Rx.
1894-95	6,329,200
1895-96	6,582,200
1896-97	5,586,000
1897-88 (nine months only)	5,472,300

We ought to be able to supply nearly the whole of this market, our rupee standard (916) being good enough for most of the purposes for which silver is imported into India, and thus in a single year we might calculate upon disposing in this way of ten crores of rupees of coined silver, being the equivalent of the above value, and reducing by this amount the actual rupee circulation of India. As bearing on the question of our finding a market for the bullion obtained by melting rupees, we may mention that nearly the whole of the silver consumption in India before 1893 was supplied by melting down our rupees, the amount of fine silver passing direct into consumption being comparatively small.

14. We do not regard this measure as having any important permanent effect on the silver market, even if we were under any obligation to give weight to such considerations. The annual production of silver is valued at £18,000,000, while our sales would be limited to six crores worth, or say £4,000,000 a year, and would probably last over only a year or two.

15. We may observe that our proposed selling of silver in addition to its direct effect on the rate of exchange would also have a not unimportant indirect effect, inasmuch as the operation would meet the demand for silver in India, and thus increase for the time the balance of trade that has to be discharged by Council Bill remittances.

16. Our first step, however, is, as already indicated, to obtain a reserve of actual gold coin, and this we can only do by borrowing in England. Our proposal is that Her Majesty's Government should move Parliament to pass an Act giving the Secretary of State power to borrow up to a maximum of £20,000,000 for the purpose of establishing a gold standard in India. It is possible that the

whole of this amount may not be required, but we believe that the possession of the power to push our efforts in the direction we indicate until our object is attained, will greatly enhance the effect of our first more limited operations. The amount which may actually be required in order to establish exchange steadily at the level of 1s. 4d. the rupee, can, as we have already said, only be determined by experience, and we have named as the maximum to which borrowing power should be taken, an amount which, we may take it, is certainly sufficient, and the interest on which the revenues of India can afford to pay. We think it most desirable that the maximum should be so fixed as to avoid any risk of having to move Parliament a second time for further borrowing powers; and the Act should provide that the borrowing shall be in such instalments as may be deemed desirable by the Secretary of State, and should require the Secretary of State to ship to India immediately in sovereigns the amounts borrowed under the powers.

17. It will be desirable to keep the powers under the proposed Act distinct from the Secretary of State's general borrowing powers; and the operations under them should be kept distinct from those under the ordinary borrowing powers and during the continuance of the transactions, held in separate account.

18. We recommend that, as soon as the Statute is passed, Your Lordship should at once borrow and ship to India £5,000,000 in gold. The sovereigns would be placed by us in our Reserve Treasuries, and held ready for such use as events may show to be expedient.

19. The first use to which this gold would be put would be to supply the deficiency in our balances caused by the sale of silver. We may reckon that our sale of ten crores of coined rupees would return to our treasuries only Rx. 6,000,000 and the balance of Rx. 4,000,000 would have to be made up out of the gold we have in hand, and would absorb about £2,700,000 of it. The result of the first year's operations would therefore be, omitting altogether any effect it might have in diverting gold towards India in ordinary course of commerce (that is, under conditions the same as those now existing) that Rx. 6,000,000 of existing rupee currency would be taken out of public use and paid over into our treasuries instead of being returned into the circulation in payment to the importers of silver; and that a further sum of Rx. 4,000,000 would cease to exist as coin forming portion of our balances, being replaced therein by £2,700,000 held in gold.

20. Suppose the operation to be repeated a second year; the amount of current circulation available for trade purposes would be reduced by Rx. 12,000,000, and the amount of coined rupees in our possession, changed into the form of gold, would be £5,300,000, giving a total reduction of silver rupee currency of twenty crores. But the considerations we have above stated indicate that before this point is reached, the exchange rate would have attained the level of 16 pence, or even higher, and sovereigns would have flowed into the country to fill up the deficiency of current circulation outside our own balances, caused by the withdrawal of silver coin. It is not our intention to part with any of the gold in our possession until this condition of things is reached, and as we can, under the law, always pass it into the currency reserve, we shall find no difficulty in retaining it.

21. When we have reached the stage in question, the sovereign will be a recognized coin of the Empire, in use in its chief cities at least, and as long as this condition can be maintained, the exchange will be stable at about 16d.

We always have it in our power to carry the operation even further by withdrawing a still larger quantity of silver and replacing it by gold coin; and we recognize that circumstances may arise in which such a measure may be forced upon us. But our present intention is rather to trust to the automatic operations of trade. The amount of coin required for the needs of commerce increases every year; and as we permit no increase in the amount of silver coin, we may reasonably expect that the effect of the increasing demand for coin will be to raise exchange to a point at which gold will flow into the country, and remain in the circulation of it. The position will thus become stronger and stronger as time goes on, but at the beginning at least gold will not be in circulation in the country to more than the extent necessary to secure stability of exchange. The mass of the circulation will be a silver circulation, maintained at an appreciated value (just as it is at present), and we can be content to see gold coin remain little more than a margin, retained in circulation by the fact that its remittance out of the country would create a scarcity of coin which would have the effect of raising the exchange value of the silver rupee in such manner as to bring it back, or at the very least to stop the outward current of remittance. We shall have attained a gold standard under conditions not dissimilar from those prevailing in France, though not a gold circulation in the English sense; and this last may possibly not be necessary at all.

22. We cannot help thinking that the determination of the Government to take active steps in the manner we have stated, will have the effect of reversing the influence of the distrust in the future of the rupee, which at present not only prevents the importation of gold to meet the demands of trade, notwithstanding the much higher rate of discount and interest prevailing in India, but also keeps sterling capital out of the country. If this distrust were once overcome by the sight of the Government actually importing gold and taking measures, at some cost to itself, to introduce gold into the circulation of the country (that is, into the reserve or marginal circulation, even if it does not find its way into active circulation), we believe that before the Rs. 12,000,000 has been withdrawn from the public circulation, gold will have flowed in to take its place; and the current circulation will have reached the condition in which it adapts itself to the fluctuations of the trade demand upon it, by the process of transfer of coin from India when it is redundant and to India when it is deficient.

23. In the circumstances in which India is placed this ebb and flow of gold would probably take place through the operation of Government remittances. The Government of India would remain under the obligation to remit £16,000,000 or £17,000,000 to England in every year. The real remittance has to take place in exported produce, of which the accounts are adjusted through Council drawings. It is our assumption throughout that this balance of trade will continue, and that it is consistent with the maintenance of the exchange value of the rupee at 16 pence; and past experience, in our opinion, fully warrants this assumption. The outflow and inflow of gold will be merely the adaptation, in point of time, of the drawings of the Secretary of State to the adjustment of the annual balance of trade; that is to say, the gold may be expected to flow from England to India during any period in which the demands for trade remittance are in excess of the amount made available by Council Bills, and in the opposite direction when Council Bills are in excess.

24. The cost of the proposed measures remains to be estimated. The interest on a sterling loan producing £20,000,000 would be £550,000 a year; and this is the maximum charge for interest which we contemplate having to incur. But we have said that it will not be necessary to borrow so much as £20,000,000 to effect our object, and that very probably the first instalment of £5,000,000 will prove to be sufficient. If it should, the interest charge will be about £130,000 a year.

The question of the manner in which the loss on the melting down of our rupees will be entered in our accounts, that is whether it will be shewn as a charge to Revenue, is a subordinate matter. We have indicated above that, for the present at least, we propose to keep the transactions in separate account. What we shall actually lose will be the appreciated value of the rupees which now form portion of our balances.

25. We have been led by public discussions in England to believe that Her Majesty's Government might be willing to entertain the proposal to give assistance to India, in some shape, towards the attainment of the object we have in view. While we cannot plead inability on our own part to carry our proposals into effect, at any rate so far as the stage to which at present we propose to confine them, we think it our duty to represent that the establishment of a gold standard in India is a matter of Imperial concern, and that India may fairly claim that the whole burden should not be put upon her. We would urge that Her Majesty's Government should contribute not only in material assistance, but by creating that greater confidence which will undoubtedly be the result of their publicly assuming a share of the liability.

26. We believe that the effective introduction of the gold standard will be welcomed by the banking and mercantile communities and by the public of India. It has indeed been pressed upon us strongly by the Bengal and Madras Chambers of Commerce (copies of whose letters will be found among the enclosures) and in the press that the time has arrived to put an end to the uncertainty and fluctuations of exchange; and the discussion in the Bombay Chamber of Commerce on February 9 indicates that the members of that Chamber share this opinion. We think, therefore, that we may expect their support in the measures we propose, though neither the Bengal Chamber nor the Bombay Chamber has declared in favour of any particular scheme to attain the object, and the Madras Chamber has supported with some modifications, the proposals of Mr. Lindsay to which we allude below. Accordingly, we strongly urge that no time should be lost by Her Majesty's Government in giving effect to our proposals.

27. Evidence of the widespread concurrence in the feeling to which the Chambers of Commerce have given voice will be found in the number of schemes which have been proposed to attain the object aimed at in our present proposals and in the interest evinced in the discussion of those schemes. We gave careful consideration to all such schemes and suggestions as far as they offered any practical solution of the difficulties before we decided to adopt the scheme we have now recommended to Your Lordship; and we think it well to allude to the two best known of them.

28. The first of the two is one recently republished in this country in association with the name of Mr. A. M. Lindsay; and is the type of several others, all of which have as their object the establishment of a gold standard without any actual gold currency. It is, briefly, that, in addition to offering

to receive gold in exchange for rupees at the rate of sixteen pence, the Government should also offer to receive rupees in exchange for gold at a somewhat lower rate, sterling drafts on London being issued in exchange for rupees. As it may not have been made public in England in full in its most recent shape, we print it as an enclosure as it appeared in a recent Indian newspaper under, we believe, Mr. Lindsay's own authority. This scheme, like our own, operates largely through the withdrawal of rupees now in circulation, and though it has much to recommend it, our main reason for deciding not to adopt it is that it would involve us in a liability to pay out gold in London in exchange for rupees received in India to an indefinite extent. Even if the ultimate liability were not greater than under our own scheme, still its extent, from time to time, would be quite beyond our control, and we can easily conceive that we might find ourselves unable to discharge it on certain quite possible suppositions as to the market rate of exchange and as to the comparative redundancy of the existing volume of the rupee currency. Mr. Lindsay, it appears to us, does not give sufficient weight to one fundamental necessity of our position, namely, that we must remit, in the contrary direction to that in which the offer suggested by Mr. Lindsay would be operative, an annual sum of about £17,000,000 to discharge our sterling liabilities. In addition to his anticipation that the Indian money market could not support the withdrawal of the number of rupees which would suffice to dangerously reduce the gold reserve, Mr. Lindsay relies on the general confidence in the future stability of exchange which the promulgation of his scheme would induce as being certain to prevent the demand for gold in London rising to a sum which would occasion us any inconvenience; but we think that such confidence is much more likely to be established by the accumulation of a strong gold reserve in India than under his plan, which contemplates the keeping of the reserve in London, and we prefer to establish confidence by that measure without involving ourselves in a liability we might possibly not be able to discharge. Instead of lengthening this despatch by further remarks on Mr. Lindsay's proposals, we append as an enclosure a memorandum by our Honourable Colleague Sir J. Westland which discusses the scheme in some detail.

29. The other scheme we wish to mention is that of Mr. L. C. Probyn, contained in a volume of papers published in 1897 by Effingham Wilson. Mr. Probyn proposes to establish the reserve of gold in India, but in order to prevent the gold passing into circulation and disappearing into hoards (an object which Mr. Lindsay also has in view), he proposes that gold should not be coined but that it should be kept in stamped bars of a high value. We do not think it either desirable or necessary that gold coins should, until the gold standard has for some time been established, pass to any appreciable extent into general circulation: under the scheme we have above proposed, the bulk of the currency in circulation, and practically the whole of it outside the Presidency towns—in which the Banks might, like ourselves, hold reserves in gold coin—would continue to consist of rupees and currency notes. But we do not think it necessary, in order to secure that result, to refuse to have legal-tender gold coins of a convenient value. We are, moreover, not satisfied that there would be any smaller disappearance into hoards of the gold bars, which it would be easy to subdivide, than of gold coins. We are also of opinion that the simpler and more direct a monetary standard can be made, the more acceptable it will be to the public. We think that the only state of things which can be called a thoroughly satisfactory attainment of a gold standard is one in which the gold coins which represent our standard are those also which are good for payments in England.

30. At the same time, if experience should hereafter indicate that there is any advantage in having the gold standard represented by a coin or piece of bullion too large to be used for ordinary monetary purposes, the course suggested by Mr. Probyn, or one like it, is still open to us. It will be observed that we do not contemplate the actual issue of gold coins by the Government, either for treasury purposes or in payment of currency notes, until the measures we have taken actually result in the establishment of the value of the rupee at sixteen pence, and the use of sovereigns to some extent, however small, as a permanent part of the circulation. There is therefore no necessity for our immediately determining whether the gold coin to which we shall give the quality of legal tender (as opposed to exchangeability secured by our own readiness to deal in them at our treasuries at a stated value) should be the sovereign or some other coin, being a multiple thereof; for example, the £5 coin of England. But the transactions of the people of this country are for the most part on so small a scale that even the sovereign would be too high in value for any but casual use, except in the centres of trade; and a coinage, composed like that of France of gold coins bearing their intrinsic value and silver coins bearing a token value, would, for any purpose of actual use in India, contain a very much smaller proportion of gold than the English or French currency. Our present belief is that, even with the sovereign as the standard coin, the amount to be procured and passed into circulation is not so large as to be beyond our means; and we hold that what we ought to aim at, and what we have every prospect of successfully attaining, is the introduction of the English sovereign itself as a current coin, and that gold bars of any value, such as Mr. Probyn proposes, which are not adapted for use, in any sense, as an actual circulating medium, are not a satisfactory form of the possession of a gold standard.

LIX.

MINUTE BY THE HONOURABLE SIR JAMES WESTLAND, K.C.S.I., DATED THE 18TH JANUARY 1898, EXAMINING MR. LINDSAY'S SCHEME.

Mr. Lindsay's scheme is described in Enclosure No. III* in words which are understood to have Mr. Lindsay's own approval. He proposes that the Government should offer to sell, without limit, on the one hand rupee drafts in India at the rate of exchange of $16\frac{1}{8}$ pence the rupee, and on the other hand sterling drafts on London at the rate of exchange of $15\frac{1}{2}$ pence the rupee. He also proposes that when the demand for gold drafts on London becomes so great as to indicate the necessity, the volume of the rupee currency should be contracted by melting down rupees, the silver bullion being sold for gold.

The funds connected with the transactions are to be kept separate from the ordinary Government balances in "Gold Standard" Offices in London and in Calcutta and Bombay. The London Office is to be kept in funds to meet the drafts drawn on it—

- (1) by borrowing in gold to the extent of five or ten millions sterling;
- (2) by the receipts realised by the sale of drafts on India;
- (3) by the receipts realised by the sale of the silver bullion in rupees melted down; and,
- (4) when necessary, by further gold borrowing.

The Indian Offices are to be kept in funds to meet the drafts drawn on them—

- (1) by the receipts realised by the sale of drafts on London;
- (2) by the coinage, when necessary, of new rupees from bullion purchased by the London Office and sent to India.

The two main objects of the scheme are—firstly, to make the sterling and rupee currencies interchangeable at rates approximating to 16 pence the rupee, and, secondly, in making rupees convertible into sterling, to do so in a manner that will prevent the use of gold as money in India.

2. There is no doubt that a Conversion Fund, which is ready and sufficient at all times to issue sovereigns in exchange for, say, $15\frac{1}{2}$ rupees, and to receive them in exchange for, say, 15 rupees, will have the effect of maintaining the exchange somewhere about these values. So far as regards this object it is immaterial whether the Conversion Fund is held in England or in India, or partly in one and partly in the other. The question of locality merely affects the convenience of the persons who will tender for exchange, and will add to the quarter-rupee difference a further difference in respect of charges of actual remittance.

3. In Mr. Lindsay's plan that side of the Conversion Fund which receives and pays gold is located in England partly because, as above stated, one of his objects is to keep gold entirely out of circulation in India, where he thinks it would only be absorbed for hoarding, and partly because the gold will be required only for the settlement of the balance of India's foreign indebtedness, and London, being the great centre for the settlement of international indebtedness, is considered to be the most convenient place for the receipt and

* Not printed in this volume.

payment of gold. Mr. Lindsay also wishes to avoid the withdrawal of gold from London—a measure which might weaken the great central reserve of the Empire.

This feature seems to be a distinct objection to the scheme. The public will regard with distrust arrangements for the establishment of a Gold Standard in India which carefully involve the location of the gold reserve in London and its use there by trade. A gold reserve intended to support the introduction and maintenance of a gold standard in any country ought to be kept in the country if it is to produce its full effect in the way of establishing the confidence which is almost indispensable to the success of the measure. If the Indian gold reserve is located in London and the public believe that it may at any time vanish in supplying the requirements of trade or of the Secretary of State, confidence will hardly be established; and in any case it seems certain that a reserve of any named amount will produce a greater effect if it is located in India than if it is six thousand miles away.

4. The method and principle of operation of the scheme are very much the same as those on which our own proposals are based. Given a circulation composed of a certain number of rupees and given a certain condition of trade in point of volume and activity, the rate of exchange will tend to some definite point. If the number of rupees is diminished or the activity of trade increased, the rate of exchange will rise, and *vice versa*. It follows that if rupees are bought and locked up, the rate of exchange will be raised, and if the Government offers to buy them up at $15\frac{3}{4}$ pence and continues to so buy them up as long as they are offered (as they will be as long as the exchange value is less than $15\frac{3}{4}$ pence), the value will ultimately be raised to $15\frac{3}{4}$ pence. But it is merely an assumption that the difference between the number of existing rupees and the number at which the exchange would rise to $15\frac{3}{4}$ pence is so small that the absorption of five millions or ten millions worth would be enough to bring about the result. It assuredly would not have been enough had the scheme been introduced in 1893. It may be enough now that the volume and activity of trade have increased so much above the standard of 1893; but, on the other hand, it may not. The scheme, therefore, would involve the undertaking of an indefinite liability.

5. Further, in so far as the contraction of the rupee currency is concerned, there is no reason why the Government should offer a fixed rate for the rupees, for it would obtain all the advantage which the plan brings by the reduction of the volume of currency, if it were to offer simply a rate more than the market rate for the time being. The rate proposed by Mr. Lindsay would have been much higher than the market rate if the operation had been begun in 1894.

6. An offer of this kind, it may be admitted, would not have the same effect as the offer of a fixed rate, in steadying the rate of exchange at the desired level. But an offer of a fixed rate of $15\frac{3}{4}d.$ can be made even only at the final stage. Mr. Lindsay's plan, indeed, is not adapted to the preliminary stage in which the Government is engaged in reducing a redundant circulation; it assumes that the redundancy has already been removed and that the circulation has reached the stage in which at the season when trade is inactive the rupee tends to fall below $15\frac{3}{4}$ pence, and at the season when it is active it tends to rise above 16 pence. That stage being reached, it is quite possible that the redundant rupees would come into the fund in exchange for gold at $15\frac{1}{4}$ rupees for the pound in the inactive season, and thus keep the level of exchange up to $15\frac{3}{4}$ pence, and then be returned into circula-

tion at 15 to the pound in the active season, and thus keep the level of exchange down to 16 pence ; and that the amount that would so come and return would not exceed some manageable figure, say five or ten millions worth.

7. The scheme accordingly becomes practicable only when the condition of the circulation has already reached the point where the redundancy, in the inactive season, is reduced to a small amount. Before that stage is reached, it is merely a plan for buying up, without limit and at an unnecessarily high price, the excess of rupees in circulation. Mr. Lindsay contemplates the melting-up and sale of these rupees, for which, *ex hypothesi*, there would be no room in the circulation. To simply lock them up would be useless and expensive ; they might as well be melted up and sold, and his plan (so far as this stage of its operation is concerned) differs from that proposed in the despatch only in this respect that he buys in at a higher price than they are worth the rupees which he intends to melt, instead of using those which we already hold at a lower value.

8. Several newspapers published in India in examining Mr. Lindsay's scheme have noticed as a point of objection that it would involve the Government in an unlimited liability to pay gold in exchange for rupees. It may be observed that not only is it impossible to fix beforehand any limit to the amount of rupees to be ultimately purchased, but also the Government would abandon all control of the measures for introducing its gold standard, and under a quite conceivable concurrence of adverse circumstances, might find itself committed suddenly to a liability beyond its immediate resources. This is one of the most important differences between this scheme and that proposed in the despatch to which this memorandum is appended. Under the latter the Government can feel its way and need never commit itself in advance to any liability which it is not fully prepared to meet.

9. There is also an important feature which does not seem to have been sufficiently considered. It is that the plan we have to adopt will not be applied to a market in which the Government (who are the proprietors and workers of the Conversion Fund) can afford to stand aside, and let the operations go on only as between public and public. On the contrary, the problem to be faced is how to maintain the exchange value in the face of the Secretary of State's drawings of 16 or 17 millions a year. Let it be assumed that the stage has been reached where the fund is in actual operation, and that the value at which the rupee would stand, in regular course of trade and of drawings without the aid of the Conversion Fund, is somewhat below $15\frac{3}{4}$ pence, but that it is maintained at this rate by banks paying their surplus rupees into the Fund, and taking gold out of it for employment in England. Mr. Lindsay states that under his scheme the sales of Council Bills are under such circumstances to be continued on their present footing. During the operations just supposed therefore, the Secretary of State will be selling Council Bills on India. The expectation, it is presumed, is that he will sell them at a rate approaching an exchange of $15\frac{3}{4}$ pence ; for it can hardly be contemplated as possible that he would for any length of time simultaneously sell sovereigns at a cheap rate and buy them at a dear rate. The Secretary of State accordingly receives gold from banks in England, and gives them bills on the Treasury in India, while at the same time the same or other banks pay rupees into the Conversion Fund, drawing out gold in exchange. The only final operation is that the Secretary of State has passed a certain amount of gold from the Conversion Fund into the India Office Treasury :

the banks, as a whole, remain unaffected, and the situation is exactly the same as if the Secretary of State had suspended drawings for the time, and met his requirements in the inactive season with money directly borrowed against the intended heavier remittances of the active season. In short, the Conversion Fund under such circumstances gives no facility and no machinery which is not, under the existing system, available by means of suspension of drawings. If the amount suspended in the inactive season is more than can be recovered by excess drawings in the busy season, then *ex hypothesi* the rupees paid into the Conversion Fund in the inactive season are greatly in excess of the amount for which a demand would be made upon it in the busy season, and the case is that described in the latter part of paragraph 7 above, namely, the final withdrawal of rupees purchased at an excessive price.

10. To consider the other side of the plan, let the supposition now be the contrary of that made in paragraph 9, and that the rate of exchange is tending to rise above the gold point. In that case it is proposed to receive into the Conversion Fund all gold tendered, and with this gold to buy silver bullion to be coined into rupees until the requisite addition being made to the circulating stock, the value of the rupee falls to sixteen pence. That is to say, when circumstances arise in which gold would naturally in response to the demands of trade find its way into circulation in India, the scheme contemplates special steps to prevent that result in order to substitute silver for gold as the required addition to the volume of the currency.

It has been stated in paragraph 8 of this memorandum that, if Mr. Lindsay's initial assumption proved erroneous, the Government would be deprived of all control of the measures for introducing the gold standard in the matter of the payment of gold for rupees. Here we find that, if Mr. Lindsay's assumption be correct, the Government are vested with a sensible degree of control of the volume of the rupee currency, for new rupees are to be coined from bullion bought with gold from the Gold Standard Offices, at the discretion of Government. This is not a feature of the plan that can commend itself in principle, for the regulation of the sole full legal tender currency of a country should be entirely automatic and not in any degree dependent upon the discretion of the Administration.

11. This special interference of the Government is suggested in pursuance of one of the two main objects of the plan. But it seems very doubtful whether the object of the interference—even if the interference were in itself unobjectionable in principle—is really worth attaining. Instead of requiring the Government to make additions of its own motion to the currency, would it not be a more healthy state of things that the state of par should be maintained by the natural backward and forward flow of excess currency in the hands of the public? And when the circumstances assumed in paragraph 9 arise, would it not be preferable to let the gold coin go into actual circulation?

12. The par of exchange between rupees and gold will be maintained only by exporting redundant rupees, in some form or other, and when the stage is reached where the circulation as a whole is sometimes redundant and sometimes deficient (with reference to a value of sixteen pence), the par will be maintained only by an arrangement by which the redundancy will ebb in the form of coin to England and the deficiency be corrected by the flow of coin from England. Mr. Lindsay's proposal is to make this ebb and flow take place in rupees, and it may be admitted that it would so operate, though

not (except at inordinate cost) to raise the rupee circulation to the point where the stage of ebb and flow comes into operation. But it will be far preferable if the margin of circulation which is to ebb and flow consists of sovereigns which can be directly utilised in England: India will then have a gold standard in the simplest and most convenient form. The number of rupees in circulation must be so reduced that they shall even at the most inactive time of trade, be insufficient with reference to an exchange of sixteen pence, and will even then require to be supplemented (mainly, if not entirely, in respect of the less active circulation which is represented by the reserve of banks and of the Government) by further coin. That coin should be gold, and under the scheme proposed in the despatch, it is sovereigns only which would find their way into the circulation, when the rupees became deficient; and the sovereigns included in the circulation will form that margin of it which ebbs and flows in the manner above described.

LX.

MINUTE BY THE HONOURABLE SIR JAMES WESTLAND, K.C.S.I., DATED THE 1ST OCTOBER 1898.

1. Having read the evidence given before the Committee of Enquiry into the Indian Currency, I desire to submit some observations with reference to it. I have of course no intention of entering into any arguments on the subject of the enquiry; that would be out of place; and my object is to elucidate some questions of fact referred to by witnesses, which perhaps the very familiarity of the subject to us in our daily administration prevented our bringing into sufficient relief. I allude especially to the position which the Government occupies in India as the holder of what may be called the Banking Reserve of the country,—a fact perpetually present to our minds and largely guiding us in our operations, both with reference to the maintenance of our own balances and to the drawings of Council Bills, but which is not, I think, sufficiently realised by some of the gentlemen who have given evidence before the Committee.

2. The great difference between the position in this respect of the Treasury in England and that in India may be seen from the following figures. I shew first those relating to England. (The figures are taken from the "Economist," and though they do not precisely correspond as to date, they are good enough for the present purpose):—

In thousands of £.	Exchequer Balance in the Bank of England.	Cash Balance in the Bank of England.
End of December 1897	3,785	19,885
„ January 1898	5,991	22,774
„ February 1898	11,907	98,806
„ March 1898	9,918(a)	21,662
„ April 1898	5,286	22,720
„ May 1898	7,230	26,046
„ June 1898	4,800(a)	27,071

It will be seen from these figures that the Exchequer could at any time, if necessity arose, realize or spend the whole of the balance at its credit without causing the Bank of England to feel any but a temporary difficulty,—a difficulty which possibly might not be great enough to cause any steps of sufficient magnitude to affect, or even to come to the knowledge of, the public.

3. Now, take the figures for India. I have had them made up in the annexed tables A and B for each week of the quarter, January to March 1898. It has to be remembered that according to the contract with the Presidency Banks the head "Public Deposits" in their weekly returns is practically synonymous with balance at credit of Treasury; the balances of the High Courts and their officers, of Railway Companies, and some others which form a not inconsiderable aggregate of public money, lie outside these accounts and

(a) I cannot find the actuals; this figure is taken by deducting from the total Exchequer balance assumed to be the balance in the bank of Ireland.

are reckoned in India as private accounts. The average of the 13 weekly returns is :—

Thousands of Rs.	Balance at credit of Governments.	Cash Balance of the Bank.
<i>Head Offices—</i>		
Bank of Bengal	739	791
Bank of Bombay	527	636
<i>Head Offices and Branches—</i>		
Bank of Bengal	1,576	2,019
Bank of Madras	505	953
Bank of Bombay	873	953

It will be seen that a demand by Government for the use of its balances would leave the Banks with an utterly insufficient amount of cash for their requirements—would in short deplete both the financial centres and the principal towns in the interior of nearly the whole of the banking balances.

4. In comparing England with India in this respect there are two features in the comparison which greatly aggravate the position as regards India. First, the balance in the Bank of England, large as it is, is after all only a portion of the available cash in London. The number of banks in London is legion, and even though the bulk of their available balances may be represented by a deposit account of the Bank with England, yet a large amount on the whole remains in their own possession ; and the diminution of the balance in the Bank of England by the whole amount it holds at the credit of the Exchequer would be a small tax upon the whole banking balance of the place. In India this is not the case, the Cash Balance of the Presidency Banks is a much more important factor in Calcutta or Bombay, for the Exchange Banks hold a comparatively small balance in their own coffers, and even that is, I believe, sometimes an advance from the Presidency Bank. Secondly, the nexus between the Bank of England and the general available cash of the country is infinitely closer than that which exists in the case of the Indian Presidency Banks. The withdrawal of, say, five millions of Exchequer Balance from the Bank of England for the purpose of meeting Government payments due throughout the country might deplete the available cash of the Bank of England for a week or two, but the amount would speedily flow back again through a thousand different channels and the cash position of the Bank would be as strong as ever. In India, on the other hand, payments of the kind do not flow back till after a considerable time, and partly do not come back at all. A war on the frontier, a famine in a province, or heavy expenditure upon railways will absorb large amounts of cash part of which dribbles back slowly, and part of which for practical purposes never comes back at all.

5. These considerations introduce great difficulty into the management of the Government Balances in India. It is not merely that we are obliged to have close regard to the demands that are coming upon us in respect of the payments due on Government account during the next few months, but that we are obliged to have regard to future commercial demands also. Just as the Directors of the Bank of England or of the Bank of Bengal, when they feel a strong commercial demand, would be false to their trust if they were merely to say "we have so many millions, or so many lakhs, in our Treasure chest, and there is therefore no use of our interfering with the demand ; let us go on giving out money as long as we possess any" ; so the Government

in India is bound to carefully guard its balances against depletion brought about either by the payments, which it has in due course to meet, or by too sudden withdrawal and dispersal through the channels of commercial demand. The above-imagined policy on the part of the Bank Directors would inevitably bring about a crisis in a very short time, and carelessness of management of the same kind—a concession to immediate commercial demand without having any regard to the future—would bring a crisis on the money market in India, much more severe and much more rapid by reason of the smallness, the almost non-existence, of any margin to fall back upon.

6. This position of responsibility is forced upon the Government in this country, not of its own will, but because it is accepted by the Banking and the Mercantile Community as the monetary system of India. The whole commerce of the country is made to depend upon the Government Balances; and the whole responsibility for the maintenance of an available Cash Reserve in India being thrown upon the Government, it is taken for granted that if there is a monetary stringency, it is due to the deliberate action of the Government. When Bank Directors, to meet the occasion I have been describing, put up the rate of discount, they are said to do what is wise and proper, both in their own interests, and in those of the Commercial Public; when the Government being in India in a similar position, takes similar measures, it is considered to be deliberately causing an undue stringency of the money market.

7. I cannot help noticing that it is almost assumed in the evidence given before the Committee that the Government of India, in their manipulation of Government Balances and of Council Bills, systematically pursue this policy of creating for their own purposes a stringency of the kind described. I have more than once had occasion to give this theory explicit denial. Some important papers on the subject were published in the *Gazette of India* of February 23rd, 1889 (page 115, etc.), which were intended to show, and in my humble opinion did show, that our one endeavour in managing our balances was to make things as smooth for the money market as it was possible for them to be, consistently with a system under which the Banks kept very little available money of their own. But explanations of the kind are readily forgotten in a place like India where every one has his own business to attend to, and cares little to read and bear in mind official documents like those to which I refer. I may mention that within this last week I see it stated in the financial article of a widely circulated journal that "Government has been busy reducing its balances with the Bank of Bengal and the Bank of Bombay." I have not enquired into the facts, but I have no doubt that the real explanation is exactly what I gave in paragraphs 22 and 23 on page 124 of the above quotation, from the *Gazette*, viz., that the so-called artificial reduction of Government Balances at the Banks is nothing more or less than the issue of the amount to the public in the form of Council Bills.

8. I may mention as regards the Government Balances at the Presidency Banks that for the express purpose of preventing any manipulation of them either in the direction of stringency or of the opposite, we work them upon a purely mechanical system. A maximum and a minimum limit are fixed, both very much in excess of the minimum stipulated in the contract with the Banks; and the rule is laid down that when the balance is above the maximum, the responsible account officer withdraws a certain amount into the

Reserve Treasury ; when it falls to or below the minimum, he passes money into it from the Reserve Treasury. This rule is departed from only (1) when we are raising a loan, and, in order to let it fall easily on the market, allow the Presidency Banks to retain a nominally excessive Treasury balance. (I call it nominal because the transaction is the result of a credit to Government on the Bank's books by debit to advances on Government Securities, and the Bank for the moment does not really possess any funds available in cash against it) ; (2) when our general balance is so severely depleted that for the time we cannot spare funds from the district treasuries to maintain the usual standard of Cash Balance in the Presidency towns. There is, therefore, so far as the Bank balance is concerned, no manipulation for the purpose of creating stringency, or of affecting the rate of exchange.

9. I come now to the question of Council Bills. It seems almost a truism to say it, yet it seems necessary to call it to mind that the amount of Council Bills that can be issued by the Secretary of State is strictly limited. I say this, because it seems to me that the accusation of causing stringency is founded in some cases on the mere fact that the Secretary of State has not issued bills for the whole amount required for the payment of the balance of trade. The amount which it is possible to draw in a year may, for ordinary times, be reckoned thus—

	Rs.
Surplus of revenue in India over expenditure in India, including expenditure on Capital Account	23,000,000
Money raised by loan in India for Capital Expenditure . . .	3,000,000
Total available . . .	26,000,000

These figures vary of course from year to year, but it must be clear that whatever the figures are, they limit the amount for which the Secretary of State may draw.

10. Now, as pointed out at length in the papers of 1889 which I have already quoted, the minimum balance with which we can carry on the business of the Government in India is about eight crores ; this eight crores includes the balances at our credit in the Presidency Banks and their Branches. Our balances went down to that figure and below it in the end of the year 1896 and again in the end of 1897 ; that is to say, in both of these years the Secretary of State drew even more than was consistent with safety ; he could not have drawn more for the simple reason that we had no funds wherewith to pay. So anxious were we to supply the money market with a full amount of Council Bills that in December 1896 we took special legislative measures to add to our Cash Balances two crores of rupees out of Currency Reserve, and thus enabled the Secretary of State to enhance his drawings by that amount. And again in January 1898 we passed a special law to enable the Secretary of State, if necessary, to draw Council Bills against our Currency Reserve. In the present year, 1898, our Council Bill programme was again based on the calculation that we should place at the Secretary of State's disposal, for drawings, everything we could spare subject to the condition of our having eight crores in our Cash Balances at the minimum period. (The exact figure—I have the estimates before me as I write—was 857 lakhs.) Our prospects as regards balances have been much improved by better revenue, and we communicated the fact to the Secretary of State in July and again in September for the express purpose of enabling him to enhance his drawings

up to the limit of our capacity to meet them; and he enhanced them accordingly. Surely what I have stated afford the most ample evidence that our policy throughout is the very opposite of seeking to raise exchange by causing stringency. We have consistently done our best to place at the disposal of the market every surplus rupee we can spare.

11. The truth is that in India where it is too much the habit to look to Government for everything, it seems not unnatural to expect the Government to finance not only the administration of the country, but its trade and commerce also. Accordingly, when commerce finds a deficiency of available funds, the cause of the deficiency is sought for not in the scarcity of banking capital, but in some action of the Government, which is expected with resources that are often barely sufficient to meet the financial requirements of its own administration, to supply also all that is wanted for the movements of two hundred crores of imports and exports.

12. One difficulty which is alluded to in some parts of the evidence is that our revenue does not come in equally during the year. This is of course a necessity in a country where so much of the revenue is land revenue, and has to be collected at the time when the revenue payers can most easily afford to pay it, *viz.*, the time of harvesting and disposing of their crops.

I find the following is a rough estimate of the distribution, through the year, of the 26 crores which, as above mentioned, become available for drawings. I take the three crores of debt as received half in July and half in August:—

	In thousands of Rs.		In thousands of Rs.
April	600	October	300
May	1,900	November	700
June	3,000	December	2,500
July	2,500	January	5,500
August	1,300	February	3,100
September	00	March	4,000
		Total	<u>26,000</u>

13. Now, if the Secretary of State could distribute his drawings after the above fashion (or rather take the figures a month later so as to allow the excesses of revenue to be brought down to the Presidency towns to meet his bills), the result would no doubt be that our excess Cash Balances (that is, the surplus over what we require for treasuries that are not in charge of land revenue) would be wholly, or nearly so, at the disposal of commerce. But I must point out that this is more a theoretical possibility than a real one. As I have already explained, there are no funds for Government to fall back upon when it surrenders to commercial uses its own Cash Balances and then suddenly finds that it must alter its programme of revenue and expenditure. There have been two crises of that kind within the last two years. The first was in October 1896 when the rains failed and prospects of famine suddenly made their appearance in India. We realized that the first and necessary step was to make large remissions of revenue at once; this came upon us just as our balances were descending to their minimum, and there was no remedy but to call upon the Secretary of State immediately to suspend his drawings, which were being as usual so regulated as to leave no margin in December. The second was in the outbreak of frontier warfare in August and September 1897 when again we were obliged to stop the Secretary of

State's drawings in order that we might have money to expend on the necessary military operations.

14. It is not possible for us therefore, dependent as we are upon our own resources, to carry on the administration with our balance continually hovering about eight crores. We can afford the risk of letting it run down to eight crores in November and December when we know we shall be amply in funds again when the revenue comes in in January. But if we had to keep to one figure all the year round, we would not be safe under a minimum of eleven crores (that is to say, a continual margin, against possible sudden claims, of three crores). Thus the proper way of describing the policy under which we might place our margin of money at the disposal of commerce would be "Reckon Rx. 11,000,000 as your minimum current balance; but inasmuch as you can stand the risk of letting it run down, for a month or two, but not longer, to Rx. 8,000,000, give commerce the advantage for that month or two of the Rx. 3,000,000 you can thus spare."

15. This is really not very far different from what we actually do; at all events, the argument shows that the money we withhold from possible utilisation by commerce is only the excess which we hold over Rx. 11,000,000; and that it is not possible, from a practical point of view, for us to accept as a rule of working: "Eight crores is your necessary minimum, and all that you hold in excess of that should be regarded as available for commercial use." In short, eight crores is not a working minimum; it is a point of danger which we can tolerate if it is to last only for a month or two, but which might at any time land us in disaster, if we tried to work with it for a longer period.

16. The distribution of Council Bills over the twelve months remains entirely in the hands of the Secretary of State; we, in India, give him from time to time our recommendations, and especially advice as to the amount we can make available for his drawings; but as the primary object of the Council Bills is to place him in funds for the expenditure which he has to undertake, we leave it to him to consider when drawing may be eased off for want of commercial demand, or increased to meet commercial demand. At the same time we are quite aware that the policy of the Secretary of State in the matter is the same as our own, that is, to draw during the twelve months as much as we can meet. The considerations I have set out will shew that the utmost the Secretary of State could do, if he were to neglect in regulating his drawings every consideration but that of momentary commercial convenience, would be that he might occasionally be a crore or two ahead of his drawings as he regulates them on the present system, at the risk of having to pull up after a month or two in order to allow our resources to come up to his demands upon them. I pronounce an opinion as to whether it is convenient for commerce to have a crore a week placed at its disposal in February to April, and then have it cut down to 12 or 15 lakhs a week in May. Of course nothing that the Secretary of State can do will increase the total of his drawings over the twelve months.

17. Having thus placed in the hands of the Secretary of State the regulation of the drawings of Council Bills, we naturally consider ourselves precluded from interfering with his operations by advancing money, even on interest, to the Presidency or other Banks in India. Occasionally, but very rarely, short loans of the kind are made by us, but it is only for the relief of temporary difficulties. The last occasion on which a proposal of the kind was

made to us is referred to in the evidence (Question 8362). In April last the Bank of Bombay, whose rate at the time was 13 per cent., asked us to advance 25 lakhs to it, for a short time, at 6 per cent. This we either formally declined or were on the point of declining when the proposal was altered into one to borrow from us at Bank rate. Within three or four days, however, the stringency of money was relieved, the Bank rate gave way, and we thought the necessity for any extraordinary measure had ceased.

18. Following this general, and as I have been trying to explain false, impression as to our policy in the management of Government Balances and Council Bills, I observe that the proposals of the Government of India made in the despatch of March 3rd have been described as a policy of forcing gold into the country by means of an artificial stringency in the money market. I do not enter upon any argument as to whether that will be their effect—that is a question of opinion on which it is for the Committee to pronounce; but that such is their deliberate intention I may be allowed to deny. The stringency unfortunately is there. I enter upon no argument as to whether it is due to the closing of the Mints, or to the withdrawal of capital from India which began long before the Mints were closed, or whether it is caused partly by the one and partly by the other. But I think I have made it clear that, granting the situation brought about by the currency policy of 1893, the stringency has occurred, not by reason of any action taken by Government, but in spite of all the efforts made by Government to prevent it. The policy we set out in our despatch of March 3rd was a policy which had for its object not to increase it, but to relieve it, and I may represent the argument in this way. "The stringency will not be relieved until capital is sent out to India. Holders of capital are afraid to send it out as long as the currency is on a silver basis, and is in such an amount that a turn of the scale, whether by cessation of activity in trade or in any other way, will send down the rate of exchange. Let us get over this transition stage; let us get to a state of things where, instead of the circulation being composed of 120 crores of silver, it is composed of, say, 105 crores of silver and 15 crores of gold (that is, £10 million). Capitalists will now see that the money in circulation in the country must be reduced from 120 crores (that is 105 in silver and 15 in gold) to 105 crores before exchange falls below 16 pence; and this state of things will give them confidence enough to send out their money to thus relieve the stringency." This is what is set out in paragraph 22 of the despatch. The argument may be right or wrong; on that point I in this place urge nothing; but the intention I think is sufficiently clear; and it was not an intention to operate through artificial stringency.

19. This explanation will also account for the position given in the proposals to the melting of rupees. While the rupees are still in circulation (as they were after the stoppage of drawing in 1893-94) the confidence we hoped to create could not exist. The capitalist would argue: "These rupees, though now withdrawn, may at any time come back into circulation, and I cannot accept it as certain that the Rupee circulation will not exceed 105 crores; while therefore this possibility lasts, I hold my hand."

20. One more explanation on this subject and I have done. The Government never had it in their minds to withdraw rupees from the circulation by any new operation of withdrawal or recall. Under the present system of India which I have explained, rupees are every year withdrawn from circulation in the payment of revenue, especially in the month of March, and they are returned to it again through the

Council Drawings. In such a monetary system, the restriction of Council Bill and the withdrawal of silver coin are synonymous terms; the Government can get possession of silver coin for the purpose of melting down, only by the Secretary of State drawing a smaller amount of Council Bills than he otherwise would draw. Our notion was that in this way the reduction of rupee circulation would commence to be brought into effect, that the Secretary of State would refuse to draw under some rate settled from time to time, but at least advancing towards 16 pence, and that the amount he thus withheld would be, by us, permanently withdrawn from circulation, and melted down so as not to be in any way further available in the form of silver currency. How far this operation would have to be carried before exchange was for the time fixed at 16 pence would be matter of experience (paragraph 16 of despatch). We would have to carry it not only far enough to raise the exchange value to sixteen pence for the time, but still further with the aid of our currency reserve (paragraph 20) so as to have a margin to fall back upon—namely, to ensure that the reduction of silver currency would be enough to maintain the sixteen pence value, even if trade were to become more inactive than at the beginning. Meantime we hoped that with this declared policy before us, commerce would find, in the prospect of the rise of the rupee towards sixteen pence and its fixation at that point, sufficient encouragement to send out gold coin for its own needs, just as before 1893 it used to send out silver to the mints when the supply of Council Bills fell short of its requirements.

21. Again, I repeat, it will be understood that I am not here engaged in defending the plan; I am merely explaining the proposals with reference to certain portions of the evidence laid before the Committee. Things have advanced even since the proposals were laid before the Secretary of State; the rupee has maintained itself very near to sixteen pence even during the inactive period of the year; and the redundancy of the circulation with reference to that value—that is, the amount which the Government of India proposed to withdraw from any possible return into circulation—appears now to be less than it appeared in March last.

22. I desire to add some remarks with reference to the allegations about illicit coinage which appear in some portions of the evidence given. We have been making continual enquiries regarding this; but we have not been able to discover that illicit coinage is in any respect more rife than it was before the rupee rose so much above its bullion value. Illicit coinage still goes on in India as everywhere else, but obviously the only kind of illicit coinage that can arise in connexion with the closure of the mints is illicit coinage of standard silver; and discoveries of coinage of base metal have nothing to do with the present subject. What we have ascertained is that the public have had their attention drawn to the subject, and that they are apt, much more than they were before, to suspect rupees which turn out upon examination to be perfectly good. We have arranged for more systematic enquiry, and all I can say at present is that no evidence exists of any greater frequency than formerly of illicit coinage.

23. The coinage of Farrukhabad rupees, alluded to by more than one of the witnesses, has nothing to do with the question of illicit coinage of Government rupees. These are rupees of an ancient currency which bear inscriptions in Persian characters only. I do not believe that a single such rupee is anywhere used as coin in British India, and it is certain that

not even the most simple individual could ever mistake one for a Government rupee. They are largely used as ornaments, and have been largely manufactured for that purpose. They also could no doubt be easily introduced into circulation as money in Native States, where the currency is often in such a condition that almost any bit of silver, bearing a Persian inscription or a part of one, passes from hand to hand rather in barter than as money. The officials of the Gwalior State the other day gave me a list of sixteen different kinds of coin of this description which so passed, at various values, in the State of Gwalior alone.

24. We recently determined that this kind of manufacture was dangerous

N.B.—We are probably bound to receive both because it might interfere genuine Farrukhabad rupees at one rupee a tola with the current coin of Native States, and still more because under Section 17 of the Indian Coinage Act. it might familiarize the people with the notion that coinage was an admissible form of private industry, and we altered the law so as to make it what the law probably always intended it to be, a criminal offence. The recent case was the first in which the change of the law was brought home to the people engaged in this trade ; but it obviously indicates no danger of illicit coinage as regards Government rupees.

LXI.

DESPATCH, FROM THE SECRETARY OF STATE FOR INDIA, No. 140 (FINANCIAL),
DATED THE 25TH JULY 1899.

In my Despatch, dated the 7th of April 1898,* No. 67, I informed your predecessor that it had been decided to refer to a Committee the proposals made by his Government with a view to the completion of the policy initiated in 1893, when, as a first step towards the establishment of a gold standard in India, the Indian Mints were closed. The terms of reference were as follows :—

“ It will be the duty of the Committee to deliberate and report to me upon these proposals and upon any other matter which they may regard as relevant thereto, including the monetary system now in force in India, and the probable effect of any proposed changes upon the internal trade and taxation of that country; and to submit any modifications of the proposals of the Indian Government, or any suggestions of their own, which they may think advisable for the establishment of a satisfactory system of currency in India, and for securing, as far as is practicable, a stable exchange between that country and the United Kingdom.”

2. The Report of that Committee was presented to me on the 7th of July, and on that day I communicated its main provisions to Your Excellency by telegraph. The Report was at the same time presented to Parliament, and copies have been forwarded to your Government in ordinary course.

3. In their letter of the 24th of March 1898, No 92,* forwarding letters from important bodies in Bombay on the currency situation, the Government of your predecessor stated that they had finally decided not to revert to the silver standard. In this decision the Committee express their concurrence; and they go on to indicate their conclusion that steps should be taken to avoid all possibility of doubt as to this determination, and to proceed with measures for the effective establishment of a gold standard. With this view, they recommend that the British sovereign be made a legal tender and a current coin in India, and that the Indian Mints be thrown open to the unrestricted coinage of gold. But, while making this recommendation, the Committee think it undesirable that any limit should be imposed on the amount for which rupees should be a legal tender; nor do they consider that you should undertake any obligation to pay gold in exchange for rupees.

4. Your Excellency will therefore observe that the Committee are in agreement with the Government of your predecessor as regards the main lines of policy to be adopted, while differing from them as to the means by which the objects in view should be attained. While concurring in the opinion of that Government that the Mints should remain closed to the unrestricted coinage of silver, and that a gold standard should be adopted without delay, the Committee do not recommend the practical steps proposed for the attainment of this object by the Government of your predecessor, whose recommendations, in the opinion of the Committee, might probably have been modified if they could have foreseen the course of events during the past year, and would seem to have been based to an undue extent on a belief in the immediate effect of a contraction of the currency in raising exchange.

* Not printed in this volume.

5. With regard to the rate at which, if the above-mentioned recommendations are accepted, the rupee should be valued in sterling, the Committee are not unanimous; inasmuch as two members are in favour of a rate of 15 pence; eight, including the Chairman, advise the definite adoption of the rate of 16 pence, which, with unimportant variations, may be said to have been the rate in force during the last eighteen months; and one, while agreeing with the principles of the Report, would prefer to take no immediate action for fixing a ratio.

6. Her Majesty's Government have given to this report the careful consideration which its great importance deserves; they are impressed by the array of arguments and facts embodied in it; and they have come to the conclusion that it is advisable to accept generally and to act upon the principles which it recommends.

7. I have therefore decided in Council that the policy of keeping the Indian Mints closed to the unrestricted coinage of silver shall be maintained; and I request that you will, as soon as you may deem it expedient, take the necessary steps for making the British sovereign a legal tender and a current coin, and that you will make preparations for the coinage of gold under the conditions suggested by the Committee. As regards the permanent ratio which the rupee should bear to the sovereign, after carefully weighing the arguments of those who are in favour of a lower rate than that which now obtains, I have no hesitation in accepting the view of the majority, who recommend an exchange rate of 16 pence per rupee, or 15 rupees to the sovereign, and in this opinion I am confident that Your Excellency's Government, especially after the experience of last eighteen months, will be disposed to concur.

8. I am also in accord with the Committee as to the general principles by which your Government should be guided in the management of your gold reserve in the absence of a legal obligation to give gold in exchange for rupees, namely, that you should make it freely available for such purposes whenever exchange falls below specie point, under such circumstances as the circumstances of the time may render desirable.

9. I desire particularly to commend to your attention the important recommendation with regard to the improvement and concentration of banking facilities, contained in the separate report of Mr. Hambro.

10. The strong opinion against sterling borrowing for currency purposes which is expressed in the separate report of Mr. Campbell, Mr. H. D. D. Sir John Muir, and which is, to some extent, supported by the recommendation of the Committee in favour of a restriction of the issue of your Government's gold obligations, will no doubt have your consideration.

11. I shall be glad to receive any observations or suggestions which Your Excellency's Government may desire to make for the furtherance of the policy which has been adopted.

LXII.

DESPATCH TO THE SECRETARY OF STATE FOR INDIA, No. 301, DATED 24TH AUGUST 1899.

WE have the honour to acknowledge the receipt of Your Lordship's Despatch No. 140, dated the 25th July 1899, forwarding the Report of the Indian Currency Committee. We are informed that Her Majesty's Government have been greatly impressed by the facts and arguments embodied in the report, and have come to the conclusion that it is advisable to accept generally the recommendations of the Committee and to act upon them. Your Lordship has accordingly decided in Council to accept these recommendations, and we are requested to take the measures necessary to carry them into effect. Your Lordship at the same time invites any remarks or suggestions which we may desire to make for the furtherance of the policy which has been adopted.

2. Before proceeding to state the measures and suggestions that commend themselves to us, we desire to express our general gratification at the Report of the Committee. The result will be, we trust, the termination of a prolonged period of uncertainty and anxiety in the trade and public finance of this country. From 1875 to 1892 the question of the exchange value of the rupee was the one financial question dominating all others in India. In the uncertainty as to the course of exchange from week to week, it was impossible to frame a budget with any approximation to certainty or to conduct a mercantile operation without either accepting a peculiar risk or making insurance against it. Henceforward our monetary standard will cease to be affected by the political and financial action of foreign countries, while, if negotiations should again, at any future time, be initiated for an international agreement with regard to the coinage of gold and silver, India would be able for the first time to enter upon such negotiations on equal terms. We look forward to the removal of one of the main causes which have not merely hindered capital from seeking India, but have driven away capital that had already found its way to our shores; and the elimination of the uncertain element of exchange from our calculations may, we hope, enable us to direct our attention at an early date to the alleviation of the burden of taxation and the establishment of a financial reserve.

3. We now proceed to the consideration of the specific recommendations of the Committee. These are:—

- (a) that the Indian mints shall continue closed to the unrestricted coinage of silver and should be opened to the unrestricted coinage of gold;
- (b) that the sovereign should be made legal tender and current coin;
- (c) that the ratio between the rupee and the pound sterling should be 15 rupees to the pound, *i. e.*, that the exchange value of the rupee should be 1s. 4d.;
- (d) that no legal obligation to give gold for rupees should be accepted; but
- (e) that the gold reserve now in course of accumulation should be made freely available for foreign remittances whenever

exchange should fall below gold specie point, under such conditions as the circumstances of the time may render necessary.

In addition to these five recommendations, which Your Lordship has accepted, you commend to our particular attention the important suggestion made in a separate report by Mr. Hambro for the improvement and concentration of banking facilities by the foundation of a large bank on the plan of the Bank of England or the Bank of France. Your Lordship is also confident that the strong opinion against sterling borrowing for currency purposes expressed by three members of the Committee will have our careful consideration.

4. Having regard to the course of events during the last seven years, it is unnecessary to say more in regard to the recommendation to keep the mints closed to the unrestricted coinage of silver than that we entirely concur in the desirability of removing all doubt on this point. We consider that the exhaustive examination which this subject has received for so many years warrants us in regarding the discussion as now closed. In future, in so far as the coinage of rupees is concerned, the mints will be employed to coin only such quantity as may be demanded by the needs of the country for current circulation. And here we may remark that our estimate of such requirements would be materially facilitated if it should be found possible to give effect to the suggestion made by Mr. Hambro for the establishment of a Bank. The proposal made by the Committee that any profit made on rupee coinage should be held in gold as a special reserve has not attracted our attention; but the need for the coinage of additional rupees is likely to occur for some time, and a decision on this point may consequently be deferred. Meanwhile, our mint operations with regard to silver will be confined to the coinage of fractional silver, to the recoinage of rupees which have ceased to be current from wear and tear or otherwise and are withdrawn from circulation, and possibly to the coinage into British Indian rupees of the silver coins of such Native States as may desire to make arrangements with us to substitute our rupees for their local coinage, following the example of the States of Bhopal and Kashmir.

5. Your Lordship is already aware of our intention to act upon the recommendation that the sovereign should be made legal tender and current coin by the introduction without delay in the Legislative Council of a Bill amending the Indian Coinage Act for that purpose. We understand that Your Lordship is taking the necessary steps for the issue of a proclamation declaring the Bombay Mint a branch of the Royal Mint, authorising the coinage therein of British gold coins, and declaring gold coinage to be legal tender in the United Kingdom. Our intended legislation will declare such coinage at any of our mints declared to be a Branch of the Royal Mint. We do not think it necessary to have the Calcutta Mint as a branch of the Royal Mint, for most of the gold imported into India and all the gold produced in the Indian mines finds its way to Bombay. We have indeed had under our consideration the question whether the Calcutta Mint might not be abolished, but we prefer to reserve our decision until we ascertain whether the Bombay Mint, if declared a Branch of the Royal Mint, can conveniently execute the coinage of rupees, and in any case this Mint will be equal to all requirements as regards the coinage of gold, silver (including the British dollar) and copper.

6. We are aware that an opinion is entertained in certain quarters that it would be expedient to defer the legislation required to make the so-

legal tender in India, because when gold coins become legal tender they may accumulate in our reserve less rapidly than when the rupee is the only legal tender. It is possible that when sovereigns are made legal tender they may be held by the Banks in their reserves or may pass into circulation to some extent instead of going into our reserve. But admitting this to be possible, we do not believe that it will occur to an extent sufficient to make an appreciable difference in the rapidity with which sovereigns will find their way into our reserve. Such sovereigns as may be retained by the Banks in reserve will be available for foreign remittance when exchange tends to decline and will *pro tanto* diminish resort for that purpose to the Government reserve. But whenever exchange rises above the rate of 1s. 4d., as it may be expected to do during every busy season, sovereigns, whether held by the Banks or passed into general circulation, except such as may find their way into hoards, should be presented to us by their holders for the profit to be made on their exchange for rupees. We consider, therefore, that when, after long consideration and discussion, it has been finally decided to make gold legal tender, and the rate has been settled, it would be inexpedient to delay giving effect to the decision.

7. We entirely agree with Your Lordship in accepting the recommendation made by the majority of the Committee that the rate of exchange to be adopted in making gold legal tender should be 1s. 4d. the rupee. On this point the arguments of the majority carry to our minds infinitely more weight than the arguments in favour of a rate of 1s. 3d., which are indeed mainly based upon a comparison between the statistics of a fairly good year and two exceptionally bad years. To adopt any other rate at this moment than that to which prices and other conditions have been adjusted during the last twenty months would be an unnecessary disturbance of existing conditions, especially when we reflect that such disturbance must of necessity have for immediate effect a very large addition (over Rs. 1,500,000) to the number of rupees required to discharge our sterling obligations. Finally, if the lower rate were adopted, we do not believe that it would be steadily established in a short time: on the contrary, such a backward step would promote a sense of uncertainty and hesitation and there would be a revival of speculation in exchange based on the probability that the lowering of a rate which, if not originally intended to be final, has at any rate established itself as final in popular opinion, would sooner or later be followed by further changes. We are confident that it is not more difficult to secure permanent stability at the rate of 1s. 4d. than at any other rate.

8. We note with great satisfaction that the Committee and Your Lordship are agreed that we should not accept any legal obligation to give gold in exchange for rupees. To undertake such an obligation at this stage would involve borrowing an indefinite amount of gold for the purpose of convertibility and to such a course there are the strongest and most obvious objections. Moreover, a stock of gold acquired for this object would be watched with excessive anxiety, and any shrinkage in its amount would be likely to foster apprehension if not panic. At the same time we hasten to add that we must aim at the attainment, with the least avoidable delay, of practical convertibility, such as exists in France.

9. We also concur in the determination that the rupee shall remain full legal tender as at present. It is not likely that gold will ever penetrate freely into the country, or be used except in the larger centres and to some extent along the railways, since gold coins represent too great a value for ordinary transactions, which will in the main continue to be carried out by the

use of silver. Gold in our opinion will remain a marginal currency. Any restriction on the use as legal tender of the rupee would, moreover, be an unnecessary and arbitrary interference with the habits of the native population. The closing of the Mints, essential as that measure was, has had a certain depressing effect upon that metal which forms the favourite investment of the savings of the people; and any semblance of hardship should, in our opinion, be rigorously avoided. We do not think that any more inconvenience under such conditions than has been felt in France from the maintenance of the full legal tender value of a mass of silver currency which is probably at least equal to the dimensions of our rupee currency.

10. The question of making our gold reserve freely available for foreign remittance is one in which the Indian business community is keenly interested. It is a question that touches them more nearly than any other connected with the currency, and hence it is that they have given such a large measure of approval to proposals for establishing a fund to be specially kept available for foreign remittances. But, though we could not consent to such proposals, we have the strongest opinion that our gold reserve should be available for foreign remittances, and that the natural and proper function of gold, when the standard is established, will be to flow in and out of the country in response to the seasonal demands of trade and so to impart elasticity to our currency. After the gold standard has been firmly established, the inflow and outflow of gold will be automatic; but at the beginning of the new system the particular manner in which the gold reserve may be drawn upon for the purpose of securing stability in exchange must be determined in the light of circumstances as they may arise. At some time to come the only method to be employed will be to increase the issue of Council bills and to reduce the drawing of Council bills by an equivalent sum. We may also proceed in time to discharge obligations in gold, or to pay certain classes of currency notes in gold, and gold so paid would reach the Banks and be made available for foreign remittance.

11. The question discussed in the preceding paragraph leads to the consideration of the opinion given by three members of the Committee in favour of sterling borrowing for currency purposes. As we have already stated, we are absolutely opposed to borrowing for the purpose of increasing the gold reserve, and we are also opposed to any immediate borrowing to maintain a stock of gold for the purpose of maintaining exchange. These two cases are different. We refuse to borrow to ensure convertibility because of the risk involved, and we prefer to adopt the sounder course, which has been adopted by other countries, of proceeding by steps to convertibility. We equally deprecate any immediate borrowing for the purpose of maintaining exchange; such borrowing, if it were necessary, and would, in that case, impose an unjust burden on the taxpayer. At the same time, the immediate borrowing would tend to retard the success of our currency. We may note that we concur with the Committee in favour of an increase of our general sterling obligations. But we differ from ourselves that if India were afflicted with financial difficulties in the earlier years of our new currency, and our gold reserve had accumulated, circumstances might arise in which the immediate borrowing would become an absolute necessity. We prefer, as we have informed Your Lordship by our previous report, to be armed against such a contingency which can never be foreseen.

by an Indian Government, not by actual borrowing but by obtaining power to borrow. The possession of such powers, in our opinion, would go far to render any exercise of them unnecessary owing to the public confidence which their existence would inspire. Such powers might have been taken for a limited period and for a definite amount, and would have been exercised exclusively, if ever necessity arose for exercising them, for the single purpose of maintaining stability in exchange. We further hoped that it might have been found possible to take such powers in conjunction with Her Majesty's Government. An association of the two Governments for so limited and specific a purpose would not have impaired the financial independence of India, and we cannot conceive that the Imperial Government would have been reluctant to give India the use of the Imperial credit for such an object. We have learnt with satisfaction since we urged these considerations that Your Lordship has stated in the House of Commons, in the debate on the Indian budget, that borrowing would be resorted to if it should prove to be necessary. But we think it right to explain fully the reasons which led us to urge our views upon Your Lordship, and we believe that, had the course we advocated proved practicable, our new currency policy would have, at any rate in this country, commanded more immediate assent and confidence.

12. It only remains for us to discuss Mr. Hambro's proposal for the establishment of a strong Bank. There can, we think, be no question that, for the purpose of the effective maintenance of the gold standard, a Bank with a large sterling capital, and constituted on the model of the Bank of England or Bank of France, would be a very powerful support to the State. Such a Bank would be better able to measure and deal with the requirements of trade for foreign remittances than any Government, and it would have the capacity, which a Government Department cannot be expected to possess, of preventing unnecessary export of gold without hampering trade. An institution of the kind would also be most effective in promoting the circulation of gold. It would, again, be an effective agent for securing an increased circulation of fiduciary money; and we might find it possible to entrust it with the management of the Government Paper Currency. Apart altogether, however, from the question of the gold standard, we consider that the constitution of such a Bank is desirable. The three Presidency Banks do not command separately or together a capital adequate to the commercial requirements of the country or sufficient to prevent excessive fluctuations in the rates of discount at different seasons of the year; while the legislative restrictions under which they conduct their business and the sharp division of their respective spheres of influence, however necessary or expedient at a former period, now form an obstacle to business. The Presidency Banks, however, have in the past done good service and the Government owe them full consideration apart from any actual contract or legal obligations. We think, therefore, that in the first instance the attempt should be made to absorb the three existing Banks in one strong establishment, constituted on a sterling basis, care being taken that the interests of holders of shares in the Banks should be fully protected and secured. The whole question is one that will require careful consideration, and we propose to address Your Lordship again on the subject after ascertaining the views of the Banks and of the mercantile community.

