

THE
SILVER QUESTION
AND
HOW TO RAISE EXCHANGE

BY

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CALCUTTA.

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ADDITION TO PREFACE.

In consequence of the serious illness of the writer, he regrets his inability to complete the Preface, supported by sundry tables to support the arguments and pamphlet. He therefore trusts his subscribers will take the book as it is.

If the author feels himself sufficiently well in the course of a few days, and if the whole First Edition be disposed of, he intends (D. V.) to bring out a Second Edition in the complete form that he intended should be the form of the First.

Au revoir (D. V.)

The Author.

CALCUTTA,

6th April, 1877.

To

The RIGHT HONORABLE WILLIAM GLADSTONE, M. P.,
Late First Lord of the Treasury and Premier of England.

Sir,

To you—and in admiration of the rare abilities which you have displayed as a Financier, first, as Chancellor of the Exchequer, and more recently as Premier of England, where your distinguished talents have been productive alike of the most eminent credit to yourself, and of benefit to the British nation—I most respectfully dedicate this small work.

As a member of an old Whig Dumfriesshire family, I the more readily assume this privilege, since to members of your able and distinguished family I have been indebted through life for many acts of patronage, kindness, and courtesy, and which I thus am able to acknowledge. My first cadetship in business, more than 20 years ago, in the mercantile firm of Messrs. Gibbs, Bright & Co., of Liverpool, was obtained for me at the request of my Uncle, the late Sir James Stuart-Menteth, Baronet, of Closeburn, Dumfriesshire), through the influence of Mr. Gladstone of Kepnock, Dumfriesshire; and favors from him, and the several members of his eminent firms of Messrs. Ogilvy, Gillanders & Co., of Liverpool, and Messrs. Gillanders, Arbuthnot & Co., of Calcutta, have materially aided me in worldly advancement during subsequent years.

I have the honor to be,

Sir,

Your most obedient Servant,

D. P. STUART-MENTETH.

CLOSEBURN,

Simla, 21st October 1876.

PREFACE.

TO THE INDIAN PRESS AND PUBLIC.

As will be seen from the accompanying address to the Government of India, this pamphlet has twice been submitted to the Government. When presenting the treatise a second time, the writer pointed out that as the subject-matter should be kept secret, and not made public, (if the Government felt disposed to adopt its views) he, (the writer) would require compensation for the copyright, and in consideration of the labour and expense he had sustained in its production; otherwise it would be published in London and Calcutta. He also pointed out that since "silver" would, in the ordinary course of events, advance towards the close of the year, and most probably still further progress in the spring of the coming year,—aided, as it would be, by the recent demand for China to meet purchases of silk,—that no time should be lost in buying at the low rates then ruling.

However, the Government, while not specifically rejecting the writer's views, declined to purchase the copyright, which will be seen from their reply:—"From R. B. Chapman, Esquire, c. s. i., Secretary to the Government of India in the Financial Department, Simla, 14th October 1876. Sir, I am desired to acknowledge the receipt of your letter of 6th instant, to the Hon'ble Sir William Muir, K. C. S. I., and to say that the Government of India are not prepared to purchase the copyright of your "Review of the Causes which have led to the Depreciation in the value of the Rupee."

The writer, therefore, in submitting this review, hopes that the "Press" and the public will accord to it their attention; and should the verdict be favorable, that measures be taken to urge upon the Government the necessity of taking action in the interests of the State.

To those who may be inclined to hold the opinion, that in view to the proposed extension of the Paper Currency, the present margin of "49 per cent. of Bullion" would not be a safe "Reserve," the writer has added some illustrations to demonstrate how such may be augmented to the average of that obtaining in the Bank of England, of from 60 to 62 per cent. as against their total liabilities. Therefore he would point particular attention to the illustration No. 3 para. 165, where it is shewn that the Government could pay off in this country more than an equivalent of the proposed London Loan, and yet hold a "Bullion Reserve" of nearly 63½ per cent. on the present and proposed Currency Issue. These are the results:—

| | | | |
|-------------------------------------|-----|-----|------------------|
| London Loan at 92= | ... | ... | Rs. 21,73,91,304 |
| Loans to be met in India | ... | " | 23,09,45,794 |
| Annual permanent saving of interest | ... | " | 5,42,180 |
| Appropriated for Public Works | ... | " | 7,00,00,000 |

This last is an important feature for consideration, in view to the recent announcement by the Government of their intention, in a short time, to raise loans in this country, to prosecute necessary "Public Works"; and *this* will obviate such necessity. Seeing that the 7 crores is based on the very wide margin of one half silver to one half Currency Notes, the Government may be able to raise this proposed sum to 10 crores or over, by increasing the "note issue," and placing less silver at the disposal of the P. W. Department.

In view to any objection which may be taken to the rate of the proposed loan, 92, as being too high, it will be found, on a reference to paragraphs 149 to 154, that, from the course of action to be pursued, such may reasonably be anticipated; but any difference is very much more than counterbalanced by the extremely high price given to silver, being estimated at an equivalent to exchange at ls. 9d. for demand drafts; a rate 10 per cent. over that ruling when the treatise was first written, and still 5 per cent. above present quotations. Further, as exchange rises, so proportionally does Indian Government paper in London, and the two equalize each other.

To any persons who may object to an increase in Currency Notes a decrease may suit them better; in which case, their attention is drawn to the first portion of the treatise, demonstrating that a loan of five million pounds sterling, invested in silver, could be utilized by reducing the present Currency by 6¼ crores, being notes of denominations over Rs. 100, proposed to be paid off in silver.

To objectors who may advance that I propose to flood the country with Currency Notes, I reply, that the country is well able to bear it, backed by a strong reserve: that these, along with the currency silver issued, only go to swell the cash balances of the several banks and agency houses, until such times as the holders have determined in what other channels to place their money; that such issues add to the permanent Currency of the country, at present locked up in Government Paper: and that they provide a capital which can be more advantageously employed in extending commercial enterprises in India.

One point must, however, be prominently borne in mind, that the question at issue is not "the loss or gain in purchasing silver," but in that it will raise the price of that metal, synonymous with exchange, *save the losses incurred by the Secretary of State in drawing upon India.* To buy silver is not "a speculation," but a *certainty*: for so sure as stocks are eased by purchases, so certainly will silver and exchange advance; and it has only been the recent glut in the market which has caused the late undue depression. Therefore the longer purchases are deferred, so much the more will the country lose by the monthly drain caused by the loss of exchange.

I cannot conclude without acknowledging the obligations I am under to the several Heads of the Government for the patience with which they have listened to my proposals. To His Excellency The Viceroy, for taking the matter under his immediate supervision: to the several Honorable Members of His Council, who have given their attention to the subject: to the able Secretary, Mr. Chapman, in charge of the Financial Department, for the notice he has given to my views: and more especially to the Hon'ble Sir William Muir (the Financial Minister), for his native courtesy in twice vouchsafing to me a hearing. As a man of business, I cannot here profess to use eloquence of speech, in expressing my acknowledgments to Sir Wm. Muir; such can best be done by heartily echoing the late pæans of praise, rendered in such appropriate measures by His Excellency Lord Lytton, and which will also meet with endorsement by the whole people of India.

SIMLA,

D. P. STUART-MENTETH.

21st October 1876.

Address to the Government of India.

This pamphlet, hurriedly written, was submitted in separate detachments, without revision, to the Honorable Sir William Muir, K.C.S.I., Financial Minister of India. It is here presented, with such additions as have been found necessary to frame it in a more complete form. The writer is aware that, as a whole, it most imperfectly treats on a most important question; is weakly written; and his only regret is, that no one, wielding a more weighty pen, has given the matter the consideration it deserves. To an experienced eye many defects will appear; notably, and for which I have to apologize, that the calculations "on out-turn of silver" are not based on the proper data—"the price of silver," but on the relative rate of exchange. Situated however as I have been, away from the ordinary sources of business information, I have been unable to watch the movements of the silver market; and as its fluctuations have been erratic, even in a day, perhaps the fault may not be so heavy as at first sight appears. The inferences adduced from these calculations must therefore be taken as approximate only, but they in no wise detract from the character of the results, and are sufficiently close for purposes of comparison. With these prefatory remarks, I proceed to give a sketch of the contents. After reviewing the causes which have led to the present depression in the price of silver, I have proposed, as a remedy, for the consideration of the Government (that is, if a remedy be necessary or under the circumstances advisable)—

1st.—To purchase silver in the London market to such an extent as the Government, on ascertainment of the stock available, may deem to be prudent or necessary.

2nd.—Raise a loan in London to meet such purchase or purchases, such loan to be a silver paid loan, in India, on maturity; issued in scrips of say every Rs. 100 to the assumptive rate of 92; the Government receiving, at such figure, the payment in pounds sterling, *i. e.*, gold=£9-4s. Loan to be transferable to the Indian register. Interest drafts for the equivalent, in rupees, to be issued in the ordinary way, for other Indian rupee loans, by the Secretary of State, by drafts on Calcutta half-yearly. The presumptive ratio of 92 per 100 is contingent on the carrying out of the suggestions contained in paragraphs Nos. 149 to 154, and, I am aware, is considerably in excess of the rates ruling in the London market at present for Indian

loans: but even a much lower figure may be accepted, in view to the proposed benefits.

3rd.—Bring such silver purchased to India and utilize it. (1) By displacing all the issues of currency notes over Rs. 100 in value, which would absorb Rs. 6,12,00,000; or, (2) Pay off as much of the Government loans in India, either $5\frac{1}{2}$, 5, $4\frac{1}{2}$, or 4 per cents. as may be possible. (3) Any residue to go towards the prosecution of necessary or remunerative Public Works.

I have assumed that the root of the evil is "silver," and that to bring about a healthy reaction, an unforeseen demand *must arise* to take off surplus stocks; bring forward timid buyers, who from present depression are holding off from making their usual purchases, and thus raise the synonymous rates of silver and exchange.

I have proved that the transaction will be a highly profitable one for the Government, if advantage be taken of the present depression, since by their lever of the "Paper Currency" they can pay off two rupees in this country for every one they may borrow in London, saving yearly as much as they will have to pay as interest in London on the proposed loan, and, by raising the rate of exchange, effect a large saving on its Secretary of State's drawings. Or the Government can equalize the transaction, by paying off an equal holding in India, and reserve the residue for Public Works. Subsequent to writing this treatise, news from Europe, to hand on the 4th September, brought intelligence of the debate on the Indian Budget in the House of Commons; and the able speeches of the Under Secretary of State for India, Lord George Hamilton, and the Hon'ble Mr. Göschen, have confirmed many of the views I have expressed as to the cause of the depression in the price of silver. Space forbids me from commenting on many salient points, much as I would like so to do; but one point is agreed upon, that the situation is not so bad, or likely to be so lasting, as some people imagine.

If I may be permitted to use the expression, I would suggest that now is India's opportunity to accept these low prices; increase her silver reserve by silver purchases, issue Paper Currency which bears no interest, redeem her Promissory Notes which do!

France has assumed an attitude shrewd and statesmanlike, in taking advantage of low prices to recoup her indemnity losses, by replenishing her exchequer at a handsome profit; and doubtless much of Germany's *embarrassment* has been France's *opportunity*. Mr. Göschen, in the House of Commons, observes—*Latin Nations with regard to gold*. "Their action is an open question, but should silver rise or things not grow worse, there seemed

no disposition on the part of those Governments to substitute a gold for a silver currency." "Germany and France, bulk of population, preferred silver to gold." Nor have her banking agents in this country been behind-hand in forethought. Foreseeing the effect which the German demonetization would produce on silver, and consequently on exchange, the Agents of the Comptoir d'Escompte de Paris, about this time last year, did not scruple to contract, months in advance, for mercantile bills on London, at rates which were thought "mad" at the time, in view to the season advancing, and with "rates" in the ordinary course of events; but the unfortunate British merchant, instead of his finding such a most profitable business to him, had to deliver his bills at maturity, at a worse rate by 4 to 5 per cent. than that ruling in the open market, owing to silver falling and exchange declining in lieu of rising. Some other banks followed the example, and did some paying strokes of business, but to the Frenchman is, I believe, due the honor of such profitable banking initiation.

A portion of the Under Secretary of State for India's speech deserves notice, as the inference to be drawn points to the stock of silver being smaller than it doubtless is. He is reported to have said—"The actual amount of silver bullion in London was so small, that on several occasions demands had to be supplied from abroad." It may not have occurred to the noble Lord that by means of the telegraph a vast bulk of the sales of most commodities in London, and other commercial centres, are transacted "to arrive," that is, the produce lies sometimes thousands of miles away, in other countries, and therefore is not on the "spot." Such may be assumed to have been the case with respect to the supplies referred to, and to judge of the amount of stock of silver, or any other commodity, this important feature has to be considered. Silver has its Agents in London, who not only can sell the "stock on hand," but "to arrive," and both are available for purchase.

The Government, after having done me the honor to hear my suggestions, declined to act, on the grounds "that a speculation that the price of silver must rise, is not one on what the Government could venture in the way that you suggest."

But, with due deference, I submit that any action that has been taken, or may be taken, partakes more or less of the nature of a speculation. The course the Government took in raising loans at home of $4\frac{1}{2}$ million pounds sterling in lieu of drawing bills on India, was a "speculation," but as it did not touch "silver" and only temporarily induced a rise in exchange, followed by as serious a decline, it was a "speculation" that failed. And, if we are to believe the statement of Lord George Hamilton in the House of Commons,

the Home Government contemplate another speculation, *viz.*, to advance upon document bills (or bills drawn upon shipments of produce from this country and place). Lord George Hamilton is reported to have spoken as follows, when speaking of the export trade of India :—" Finding that prices had not risen in India, and that the export trade would therefore be stimulated, they had requested the Viceroy to endeavour to *advance bills upon Indian produce* as an easier mode of remittance."

The purchase of document bills (or bills having bills of lading of shipped produce attached) is an enterprise which may lead to large profits ; but is attendant with all the dangers that attach to large profits and the salting of invoices, the fall in price of produce at home, and other incidental causes, have, in the history of the past, shewn us the ruin of not a few Indian Banks, and the serious embarrassment of others. And as the effect will only last so long as the system continues in force, and does not touch "*silver*," unless other causes tend to raise the price of the metal, its effect is but temporary. As the rendering of Lord Hamilton's speech is somewhat vague, it may be interpreted to mean, that the Government contemplate to purchase produce and draw bills against shipments. Here the elements of supply and demand have to be considered, and as the price of produce in this country is reckoned by the price in London (qualified by the difference in exchange, telegraphed between the two countries daily), the disturbing element of Government purchases may bring about such a fall in the price of produce at home, as to give poor or bad returns. Indeed so close are prices brought by means of the telegraph, that very little margin of profit is now possible to the shipper.

But no beating about the bush will benefit, without boldly attacking the centre ; and notwithstanding suggestions on any other subject connected with this topic, it must come to this, that "*silver*" and "*silver alone*" will eventually have to be considered.

Even if a London loan obtain no better than 80, yet if a purchase, or a series of purchases, at the present moment, or to be continued if need be from time to time, remove the depression, and bring about a healthy reaction ; and even if it fail in altogether eradicating the obstruction ; yet, in view to the impetus it will give to the silver market, and the removal of a portion of the outstanding debt of India, it would be well for the Government to pause, before finally declining a measure which would repay in lessening India's burdens permanently and prospectively.

In reference to the part assigned to the Savings Banks in this treatise, the writer places his services at the disposal of Government, if placed in control of the Government Savings Banks in India, on a suitable salary ; and

his practical experience of business, extending over twenty years, warrants him in asserting that he will accomplish the ends propounded.

My best thanks are due to Sir William Muir for his courtesy, in giving to these views the attention he has done, and for his permitting me to receive from the Financial Department, Government Reports, from which I have been enabled to set up my tables. To the Financial Department, I also beg to express my obligations for the readiness displayed in meeting such requirements.

D. P. STUART-MENTETH,

Stock and Share Broker.

CLOSEBURN,

Simla, 15th September 1876.

(Copy.)

Simla, 28th August 1876.

TO

THE HON'BLE SIR WILLIAM MUIR, K. C. S. I.,

Financial Minister for India.

SIR,

I have the honor to wait on you with a "Review on the causes which have led to the depreciation in the value of the rupee as a standard of currency, in connection with the exchange between India and Great Britain. Also suggestions as to a remedy."

I attribute the present depression—

1st.—To the German demonetized silver, whose instalments have disturbed the regular sources of supply, causing—

2nd.—A panic, by which regular buyers have kept out of the market, hoping to come in and purchase at the lowest. This has led—

3rd.—To an accumulation of stock, and panic to holders.

The remedy I propose to suggest for the consideration of the Government is as follows—Raise a loan in London, and buy up the whole, or so much of the stock of silver in London, as the Government may, upon deliberation, find necessary. I have assumed that a purchase of five million pounds sterling will suffice, but the Government may think it advisable to go beyond this limit. In that case, negotiate with Germany to take over her silver at a fixed rate, or otherwise, as may be deemed most expedient. Utilize the silver by coining into currency Rupees; in which case, displace all currency notes over Rs. 100 in value. This will place 6½ crores in circulation: the balance to be met from the Currency Reserve. Or, if the Government object to this measure, pay up any of their 4 per cent loans, which can be done on giving the public a three months' notice; issue notes, or silver, and hold the residue of the silver in reserve. The Government could do this to any figure. 20 millions, or treble if necessary.

I have the honor to be,

Sir.

Your most obedient Servant,

(Sd.) D. P. STUART-MENTETH.

11th September 1876.

FROM

R. H. HOLLINGBERRY, Esq.,

Assistant Secretary, Financial Department.

DEAR SIR,

By desire of Sir W. Muir, I return the accompanying paper of proposals for the purchase of silver. He has read it with great interest and attention; but thinks that a speculation that the price of silver must rise, is not on what the Government could venture in the way that you suggest.

(Signed) R. H. HOLLINGBERRY.