

Secretary of State is said to be to lock up Indian gold in London. With the use or misuse of the Indian gold in London we are not here concerned. But those who are inclined to justify the India Office scandals in the management of Indian funds in London, and have offered their services to place them on a scientific footing, may be reminded that a practice on one side of Downing Street which Bagehot said could not be carried on on the other side of it without raising a storm of criticism, would require more ingenuity than has been displayed in their briefs. This much seems to have been admitted on both sides that the operations of the Secretary of State do prevent the importation of gold into India, not altogether, but to the extent covered by their magnitude. Now, those who have held that the ideal of the Fowler Committee has been defeated are no doubt right in their view that the narrowing of the Secretary of State's operation would lead to the importation of gold into India. But what justification is there for assuming that the imported gold would become a part of the currency of India? The assumption that the abolition of the Secretary of State's financial dealings would automatically make gold the currency of India is simply a gratuitous assumption. Whether the imported gold would become current depends on quite a different circumstance.

The other explanation offered to explain the failure of the ideal of the Fowler Committee is the want of a Mint in India open to the free coinage of gold. The opening of the Mints to the free coinage of gold has been regarded as the most vital recommendation of the Fowler Committee; indeed, so much so that the frustration of its ideal has been attributed to the omission by the Government to carry it out. The consent given by the Government in 1900 to drop the proposal under the rather truculent attitude of the Treasury has ever since been resented by the advocates of a gold currency. A resolution was moved in 1911 by Sir V. Thackersay, in the Supreme Legislative Council, urging upon the Government the desirability of opening a gold Mint for the coinage of the sovereign if the Treasury consented, and if not for the coinage of some other gold coin. In deference to the united voice of the Council, the Government

TABLE LII
BALANCE OF TRADE, COUNCIL DRAWINGS AND IMPORTS OF GOLD AFTER 1893

Years.	Balance of Trade (Merchandise: Private Account).	Net Imports of Treasure.		Amount of Coun- cil Bills drawn.	Excess (+) or De- ficiency (—) of Bills drawn as compared with Budget Estimate.	Home Charges.	Cash Balances in the Home Treasury.	Minimum Rate for Council Bills.	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	s.	d.
	£	£ 000,000	£ 000,000	£	£	£	£		
1893-94	21,660,500	— .39	8.3	9,530,235	— 9,169,765	15,826,815	1,300,564	1	1.500
1894-95	25,765,000	— 2.7	3.4	16,905,102	— 94,898	15,707,367	1,503,124	1	0.000
1895-96	29,963,800	1.5	3.7	17,664,492	+ 664,492	15,603,370	3,393,798	1	1.000
1896-97	21,333,100	1.4	3.5	15,526,547	— 973,453	15,795,836	2,832,354	1	1.781
1897-98	18,847,000	3.2	5.4	9,506,077	— 3,493,923	16,198,263	2,534,244	1	2.250
1898-99	29,560,700	4.3	2.6	18,692,377	+ 2,692,377	16,303,197	3,145,768	1	3.094
1899-1900	25,509,600	6.3	2.4	19,067,022	+ 2,067,022	16,392,846	3,330,943	1	3.875
1900-01	20,727,400	.5	6.3	13,300,277	— 3,139,723	17,200,957	4,091,926	1	3.875
1901-02	28,630,600	1.3	4.8	18,539,071	+ 2,039,071	17,368,655	6,693,137	1	3.875
1902-03	33,352,600	5.8	4.6	18,499,946	+ 1,999,946	18,361,821	5,767,787	1	3.875
1903-04	45,424,100	6.6	9.1	23,859,303	+ 6,859,303	18,146,474	7,294,782	1	3.875
1904-05	40,548,200	6.5	8.9	24,425,558	+ 7,925,558	19,463,757	10,262,581	1	3.969
1905-06	39,086,700	.3	10.5	32,166,973	+ 14,333,973	18,617,465	8,436,519	1	3.938
1906-07	45,506,600	9.9	16.0	33,157,196	+ 15,357,196	19,208,408	5,606,812	1	3.969
1907-08	31,640,000	11.6	13.0	16,232,062	— 1,867,938	18,487,267	5,738,489	1	3.906
1908-09	21,173,300	2.9	8.0	13,915,426	+ 4,584,574	18,925,159	8,453,715	1	3.906
1909-10	47,213,000	14.5	6.3	27,096,586	+ 10,896,586	19,122,916	15,809,618	1	3.906
1910-11	53,685,300	16.0	5.8	26,783,303	+ 11,283,303	19,581,563	18,174,349	1	3.906
1911-12	59,512,900	25.1	3.6	27,058,550	+ 9,900,250	19,957,657	19,463,723	1	3.937
1912-13	57,020,900	22.6	11.5	25,759,706	+ 10,259,706	20,279,572	9,789,634	1	3.969
1913-14	43,753,900	15.6	8.7	31,200,827	+ 10,000,827	20,311,673	3,157,732	1	3.937
1914-15	29,108,500	5.1	5.9	7,748,111	— 12,251,889	20,208,598	7,913,236	1	3.937
1915-16	44,026,600	— .7	3.2	20,354,517	+ 13,354,517	20,109,094	12,803,348	1	3.937
1916-17	60,843,200	8.82	12.5	32,998,095	+ 29,093,095	21,145,627	11,391,993	1	4.031
1917-18	61,420,000	16.8	12.7	34,880,682	+ 34,880,682	26,065,057	16,625,416	1	4.156
1918-19	56,540,000	— 3.7	45.3	20,946,314	+ 20,946,314	23,629,495	14,715,827	1	4.906

of India again asked the Secretary of State to approach the Treasury for its sanction.* The Treasury on this occasion presented the Secretary of State† with two alternatives: (1) That a branch of the Royal Mint be established at Bombay solely for the purpose of coining gold into sovereigns, and exclusively under its control; or (2) that the control of the Mint at Bombay should be entirely transferred to it. Neither of the two alternatives was acceptable to the Government of India; and the Secretary of State, as a concession to Indian sentiment, sanctioned the issue of a ten-rupee gold coin from the Indian Mint. The Government of India preferred this solution to that suggested by the Treasury, but desired that the matter be dealt with afresh by the Chamberlain Commission then sitting. That Commission did not recommend a gold Mint,‡ but saw no objection to its establishment provided the coin issued was a sovereign, and if the coinage of it was desired by Indian sentiment and if the Government did not mind the expense of coinage.§ This view of the Commission carried the proposition no further than where it was in 1900, until the war compelled the Government to open the Bombay Mint for the coinage of gold as a branch of the Royal Mint. But it was again closed in 1919. Its reopening was recommended by the Currency Committee of 1919,¶ and so enthusiastically was the project received that an Honourable Member of the Supreme Council took the unique step of tempting the Government into adopting that recommendation by an offer to increase the Budget Estimates under "Mint" to enable the Government to bear the cost of it. The Government, however, declined the offer with thanks so we have in India the singular spectacle of a country in which there was a Gold Mint even when Gold was not legal tender, as was the case between 1835-93, while there is no gold Mint, when gold is legal tender, as has been the case since 1893. Just what an open Mint can do in the matter of promoting the ideal of the Fowler Committee it is difficult to imagine; but the following extracts from the evidence of a witness (Mr. Webb), than whom there was no greater advocate of an open gold Mint before the Chamberlain Commission, help to indicate just what is expected from a gold Mint.

*See Commons Paper 495, of 1913; p. 57.

†*Ibid*, p. 64.

‡Report, sees. 69-71.

§ The Commission recommended that if a gold Mint was not established in India Government should renew the notification withdrawn in 1906 to receive refined gold on suitable terms.—Report, sec. 72.

¶ Report, par. 67.

“The principal advantage which you would expect to derive from a gold Mint is that you would increase the amount of gold coin in circulation?—That would be one of the tendencies.

“Is there any other advantage?—The advantage is that the country would be fitted with what I regard as an essential part of its monetary mechanism. I regard it as an essential part of its currency mechanism that it should have a Mint at which money could be coined at the requisition of the public.

“I want to get exactly at your reason why that is essential. Am I right in thinking that you consider it essential to a proper currency system that there should be a gold currency?— Yes.

“And essential to a gold currency that there should be a gold Mint?—Yes, on the spot in India itself..... It would do away, in a measure, with the management by the Secretary of State of the Foreign Exchanges, in that there would be always the Mint at which the public could convert their gold into legal-tender coins in the event of the Secretary of State taking any action of which the public did not approve. It is a safeguard, so to speak, an additional safeguard, that the people of India can on the spot obtain their own money on presentation of the metal.”

Here, again, the assumption that a gold Mint is a guarantee that there will be a gold currency seems to be one as gratuitous as the former assumption that if gold were allowed to be freely imported it would on that account become part of the currency. On the other hand, there are cases where Mints were open, yet there was neither gold coinage nor gold currency. Instances may be cited from the history of the coinage at the Royal Mint in London. The magnitude of gold coinage during the bank suspension period, 1797-1821, or the late war, 1914-18, is instructive from this point of view. The Mint was open in both cases, but what was the total coinage of gold? Throughout the suspension period the gold coined was negligible, and during the years 1807, 1812, and 1814-16 no gold was coined at all at the Royal Mint.* Again, during the late war the coinage of gold fell off from 1915, and from 1917 it ceased altogether.†

* See G. R. Porter, *Progress of the Nation* (Ed. Hirst) p. 568.

† See Report of the Deputy Master of the Royal Mint, 1921.

These instances conclusively show that although a Mint is useful institution, yet there is no magic in a Mint to attract gold to it. The historical instances adduced above leave no doubt that the circulation of gold is governed by factors quite independent of the existence or non-existence of a Mint open to the free coinage thereof.

Now, it is an established proposition of political economy that when two kinds of media are employed for currency purposes the bad one drives out the good one from circulation. Applying this principle to the situation in India, it should be evident that so long as there is an unlimited issue of rupees gold cannot circulate in India. This important principle has been so completely overlooked by those who have insisted on the introduction of a gold currency that they have not raised a finger against the unlimited issue of rupees. Mr. Webb, the fiercest opponent of the India Office malpractices, and the staunchest supporter of the view that if only the Secretary of State could be made to contract his drawings gold would flow and be a part of the currency in India, recommended to the Chamberlain Commission that—

“The sales of Council Drafts should be strictly limited to the sum required to meet the Home Charges, and no allotments should in any circumstances be made below, say, 1s. 4 $\frac{1}{8}$ d. to 1s. 4 $\frac{3}{32}$ d.—i.e. about the present equivalent of specie point for gold imports into India. The sum required in London for Home Charges having been realized, *no further sales of Council Drafts should be made except for the express purpose—duly notified to the public—of purchasing metal for the manufacture of further token coinage.* Such special sales of Council Drafts should not be made at anything below specie point for gold imports.”†

Again, Sir V. Thackersay, in the course of his speech on March 22, 1912, moving a resolution in the Legislative Council, asking the Government to open the Mint for the coinage of gold in India, observed :—

“Let me make myself clear on one point. *I do not suggest that Government should give up the right to coin rupees or refuse to give rupees when people demand the same.* I do

* See Report of the Deputy Master of the Royal Mint, 1921.

† Italics not in the original.

not propose to touch the gold-standard reserve, which must remain as it is as the ultimate guarantee of our currency policy. My proposal does not interfere with the existing arrangements in any way, but is merely supplementary to them Let the Government of India accumulate gold to the maximum limit of its capacity, but let the surplus gold which it cannot absorb be coined and circulated if the public chooses to do so. With our expanding trade and the balance in our favour, gold will continue to be imported in ordinary time, and *if the facilities of minting are provided in India, it will go into circulation.*”*

These are surely not the ways of promoting a gold currency. Indeed, they run counter to it. So long as the coinage of rupees goes on gold will not enter into currency. Indeed, to cry out on the one hand against the huge drawings of the Secretary of State and the consequent transfer of Indian funds to London and their mismanagement by the Secretary of State, and on the other hand to permit him to manufacture additional token coinage of rupees, is to display not only a lamentable ignorance of a fundamental principle of currency, but also to show a complete failure to understand the precise source from which the whole trouble arises. It is true that the Government of India cannot bind the Secretary of State to any particular course of action,† and he often does override the provisions of the Annual Budget. But the question remains. How is it that he is able to draw so much more after 1893 than he ever did before? It must be remembered that whatever the Secretary of State does with the funds in London he must pay for his drawings in India. Before 1893 he drew less because his means of payment were less; after 1893 he drew more because his means of payment were greater. And why were his means of payment greater? Simply because he had been able to coin rupees. Indeed, the amount of drawings are limited by the demand for them and by his capacity to coin rupees. It is therefore foolish to blame the Secretary of State for betraying the interests of India and at the same time to permit him to coin rupees, the very means by which

* *S.L.C.P.*, Vol. L, pp. 637-38. Italics not in the original.

† The legal position of the Secretary of State and the extent to which he can be bound by the provisions of any law passed by the Government of India were well explained by Sir James Westland in his speech on the Indian Paper Currency (Amendment) Bill, which afterwards became Act II of 1898; compare also the peculiar wording of that Act.

he is able to betray. If a gold currency is wanted, and it is wanted because the rupee is a bad standard of value, then what is necessary is not to put a limit on the drawings of the Secretary of State or the opening of a gold Mint, but a short enactment stopping the coinage of rupees. Then only gold—made legal tender, at a suitable ratio with the rupee—will become a part of Indian currency.

That the stoppage of rupee coinage is a sufficient remedy is amply corroborated by the now forgotten episode in the history of Indian currency during the years 1898-1902. Within the short space of a year and a half after gold had been made legal tender the Hon. C. E. Dawkins, notwithstanding the fact that there was no gold Mint, was able, in his Budget speech in March, 1901, to observe :—

“India has at length emerged from a period of transition in her currency, has reached the goal to which she has been struggling for years, has established a gold standard and a gold currency, and has attained that practical fixity in exchange which has brought a relief alike to the private individual and to the Government finances.”*

So great was the plethora of gold that Mr. Dawkins further remarked †:—

“..... We have been nearly swamped by gold”

The transformation in the currency position which then took place was graphically described by Lord Curzon, the then Viceroy, in the following words‡ :—

“Mr. Dawkins has successfully inaugurated the new era under which the sovereign has become legal tender in India, and stability in exchange has assumed what we hope may be a stereotyped form. This great change has been introduced in defiance of the vaticinations of all the prophets of evil, and more especially of the particular prophecy that we could not get gold to come to India, that we could not keep it in our hands if we got it here, but that it would slip so quickly through our fingers that we should have even to borrow to maintain the necessary supply. As a matter of fact, we are almost in the position of the mythological king, who

* *Financial Statement*, 1900-1, p. 14.

† *Ibid.*, p. 19.

‡ *Ibid.*, p. 167.

prayed that all he touched might be turned into gold, and was then rather painfully surprised when he found that his food had been converted into the same somewhat indigestible material. So much gold, indeed, have we got, that we are now giving gold for rupees as well as rupees for gold, i.e. we are really in the enjoyment of complete convertibility—a state of affairs which would have been derided as impossible by the experts a year ago.”

Compare this state of affairs in 1900-1 with that found to exist in 1910-11, for instance. Speaking of the currency situation as it was in that year, the Hon. Sir James (now Lord) Meston, observed* :—

“We have passed through many changes in currency policy and made not a few mistakes. But the broad lines of our action and our objects are clear and unmistakable, and there has been no great or fundamental sacrifice of consistency in progress towards our ideal. Since the Fowler Committee that progress has been real and unbroken. There is still one great step forward before the ideal can be reached. We have linked India with the gold countries of the world, we have reached a gold-exchange standard, which we are steadily developing and improving. The next and final step is a true gold currency. That, I have every hope, will come in time.....”

Leaving aside for the moment the extenuatory remarks of the speaker, the fact remains that in 1900 India had a gold currency. But, taking stock of the position at the end of 1910, it had ceased to have it. What is it that made this difference? Nothing but the fact that between 1893-1900 no rupees were coined, but between 1900-1910 the number of rupees coined was enormous. During the first period the inducement to coin rupees was very great indeed. The exchange was not quite stable, and the Government had still to find an increasing number of rupees to pay for the “Home Charges.” And an Honourable Member† of the Supreme Legislative Council actually asked :—

“Is there any objection to the Government working the Mints on their own account? Considering the low value of

* *Financial Statement*, 1910-11, p. 346.

† This was no other than the Hon. Fazulbhai Vishram, the well-known financier of Bombay. Cf. his speech in the *Financial Statement*, 1894-95, p. 96

silver and the great margin between the respective prices of bullion and the rupee, would not Government by manufacturing rupees for itself make sufficient profit to meet at least a substantial portion of the present deficit ? It seems to me to be a legitimate source of revenue and one capable of materially easing our finances.”

But Sir James Westland, who was then in charge of the finances of India, replied*:—I

“I must confess to a little surprise in finding the proposal put forward by one of the commercial members of your Excellency’s Council that we should buy silver at its present low price, and coin it for issue at the appreciated value of the rupee I shall certainly refuse myself to fall into this temptation.”

Again, 1898, when some of the followers of Mr. Lindsay desired that Government should coin rupees to relieve the monetary stringency, Sir James Westland remarked†:—

“in our opinion the silver standard is now a question of the past. It is a case of *vestigia nulla retrorsum*. The only question before us is how best to attain the gold standard. We cannot go back to the position of the open Mints. There j are only two ways in which we can go back to that position, We can either open the Mints to the public generally, or we can open them to coinage by ourselves. In either case what it means is that the value of the rupee will go down to something approaching the value of silver. If the case is that of opening the Mints to the public, the descent of the rupee will be rapid. If it is that of opening only to coinage by the Government, the descent of the rupee, may be slow but it will be no less inevitable.”

The Hon. C. E. Dawkins was equally emphatic in his denunciation of the project of Government coining rupees. When he was tempted to acquiesce in the proposal by holding out the prospects of a profit from coinage, he replied‡:—

“I think I ought to beg my hon. friend not to dangle

* *Financial Statement*, 1894-95, p. 123. † *Ibid.*, 1898-9, p. 169.

‡ *Ibid.*, 1900-1, p. 163.

the profits on silver too conspicuously before the eyes even of a most virtuous government. Once let these profits become a determining factor in your action, then good-bye stability.”

Another instance of the Government’s determination not to coin rupees is furnished by inquiring into the reasons as to why it is that the Government has never assumed the responsibility of selling council bills in indefinite amount and at a fixed rate. The Chamberlain Commission argued that the Government cannot undertake such a responsibility because it cannot hold out for a fixed rate, and may have to sell at any rate even lower than par. This is true so far as it is a confession of a position weakened by the Government’s folly of indulging in excessive rupee coinage. But this was certainly not the explanation which the Government gave in 1900 when it was first asked to assume that responsibility. The Government knew perfectly well that to keep on selling bills indefinitely was to keep on coining rupees indefinitely. They refused to assume that responsibility because they did not want to coin rupees. That this was the original reason was made quite plain by the Hon. Mr. Dawkins,* who reminded those who asked Government to undertake such a responsibility that

“the silver coin reserve of Government in consequence rapidly neared a point at which it was impossible to continue to meet unlimited transfers [i.e. council bills]. Therefore the Secretary of State decided to limit the demands by gradually raising the rate, thus meeting the most urgent demands, and weeding out the less urgent, while warning those whose demands were not so urgent to ship gold to India. No other course was practicable. The liability of the Secretary of State to keep the tap turned on indefinitely at 1s. 4 5/32d. has been asserted. But I cannot see that any positive liability exists, and I wonder if those who assert its existence would have preferred that the stability of our currency (whose situation they are well able to appreciate and follow) should have been affected by the reserve of rupees being dangerously reduced ?” [and which could not be augmented except by coining more rupees].

Just at the nick of time, when the ideal of a gold standard with a gold currency was about to be realized, there came on

* Cf. his Budget speech, *Financial Statement*, 1900-1, p. 27.

the scene Sir Edward Law as the Finance Minister of India and tore the whole structure of the new currency to pieces with a piratical nonchalance that was as stupid as it was wanton. His was the Minute of June 28, 1900, which changed the whole course of events.* In that Minute occurs the following important passage ;—

“15. As a result of these considerations it must, I think, be admitted that the amount of gold which can safely be held in the currency reserve must for the present be regulated by the same rules as would guide the consideration of the amount by which the proportion invested in government securities could be safely increased. Pending an increase in the note circulation or some other change in existing conditions, I am of opinion that a maximum sum of approximately £ 7,000,000 in gold may now be safely held in the currency reserve. I should not, however, wish to be bound absolutely to this figure, which is necessarily an arbitrary one, and particularly I should not wish any public announcement to be made which might seem to tie the hands of the Government in the event of circumstances, at present unforeseen, rendering its reduction hereafter desirable.”

In outlining this Minute, which with modifications in the maximum gold to be held in the currency reserve, remains the foundation of the currency system in India, the author of it never seems to have asked for one moment what was to happen to the ideal of a gold standard and a gold currency? Was he assisting the consummation of the gold standard or was he projecting the abandonment of the gold standard in thus putting a limit on the holding of gold? Before the policy of this Minute was put into execution the Indian currency system was approximating to that of the Bank Charter Act of 1844, in which the issue of rupees was limited and that of gold unlimited. This Minute proposed that the issue of gold should be limited and that of rupees unlimited—an exact reversal to the system of the Bank Suspension period. In this lies the great significance of the Minute, which deliberately outlined a policy of substituting rupees for gold in Indian currency and thereby defeating the ideal held out since 1893 and well-nigh accomplished in 1900.

* For a copy of the Minute and the correspondence thereon, see Appendix V to the *Interim Report of the Chamberlain Commission*, Cd. 7070 of 1913.

If Sir Edward Law had realized that this meant an abandonment of the gold standard, perhaps he would not have recorded the Minute, but what were the considerations alluded to in the Minute which led him thus to subvert the policy of a gold standard and a gold currency and put a limit on the gold part of the currency rather than on the rupee part of the currency? They are to be found in a despatch, No. 302, dated September 6, 1900, from the Government of India, which says :—

“2. the receipts of gold continued and increased after December last. For more than eight months the gold in the currency reserve has exceeded, and the silver has been less, than the limits suggested in the despatch of June 18. By the middle of January the stock of gold in the currency reserve in India reached £5,000,000. The proposal made in that despatch was at once brought into operation; later on we sent supplies of sovereigns to the larger District Treasuries, with instructions that they should be issued to anyone who desired to receive them in payments due or in exchange for rupees; and in March we directed the Post Office to make in sovereigns all payments of money orders in the Presidency towns and Rangoon, and we requested the Presidency Banks to make in the Presidency towns and Rangoon payments on Government account as far as possible in sovereigns. These measures were taken, not so much in the expectation that they would in the early future relieve us of any large part of our surplus gold, but in the hope that they would accustom the people to gold, would hasten the time when it will pass into general circulation in considerable quantities, and by so doing, would mitigate in future years the difficulties that we were experiencing from the magnitude of our stock of gold and the depletion of our stock of rupees.

“3. In order to meet these difficulties and to secure, if possible, that we should have enough rupees for payment to presenters of currency notes and tenderers of gold, we began to coin additional rupees

* * * * *

“14. We may mention that we have closely watched the result of the measures described in paragraph 2. The issues of gold have been considerable; but much has come back

to us through the Currency Department and the Presidency banks. The Comptroller-General estimated the amount remaining in circulation at the end of June at over a million and a quarter out of nearly two millions issued up to that time ; but there are many uncertain data in the calculation. We are not yet able to say that gold has passed into use as money to any appreciable extent.

“15. It is very desirable that we should feel assured of being able to meet the public demand for rupees, as indicated by the presentation of currency notes and gold. We therefore strongly press on your Lordship the expediency of sanctioning the above proposal for further coinage [of rupees];...

* * * * *

“17. But we do not wish our proposal to be considered as dependent on such arguments as those just stated. We make it primarily on the practical ground that we consider it necessary in order to enable us to fulfil an obligation which, though we are not, and do not propose to be, legally committed thereto, we think it desirable to undertake so long as we can do it without excessive inconvenience ; namely, to pay rupees to all tenderers of gold and to give rupees in encashment of currency notes to all who prefer rupees to sovereigns.”

The arguments advanced in this statement of the case for coining rupees are a motley lot. At the outset it is something unheard of that a Government which was proceeding to establish a gold standard and a gold currency should have been so very alarmed at the sight of increased gold when it should have thanked its stars for such an early consummation of its idea. Leaving aside the psychological aspect of the question, the government, according to its own statement, undertook to coin rupees for two reasons : (1) because it felt itself obliged to give rupees whenever asked for, and (2) because people did not want gold. What force is there in these arguments ? Respecting the first argument it is difficult to understand why Government should feel itself obliged to give rupees. The obligation of a debtor is to pay the legal-tender money of the country. Gold had been made legal tender, and the Government could have discharged its obligations by paying out without shame or apology. Secondly, what is the proof that people did

not want gold ? It is said that the fact that the gold paid out by Government returned to it is evidence enough that people did not want it. But this is a fallacy. In a country like India Government dues form a large part of the people's expenditure, and if people used that gold to meet those dues—this is what is meant by the return of gold to Government—then it is an evidence in support of the contention that people were prepared to use gold as currency. But if it is true that people do not want gold, how does it accord with the fact that Government refuses to give gold when people make a demand for it ? Does not the standing refusal imply that there is a standing demand ? There is no consistency in this mode of reasoning. The fact is, all this confused advocacy is employed to divert attention from the truth that the Government was anxious to coin rupees not because people did not want gold, but because Government was anxious to build a gold reserve out of the profits of additional coinage of rupees. That this was the underlying motive is manifest from the minute of Sir Edward Law. That the argument about people disliking gold, and so forth, and so forth, was only a cover for the true motive comes out prominently from that part of the Minute in which its author had argued that:—

“16. If it be accepted that £ 7,000,000 is the maximum sum which, under existing conditions, can be held in gold in the currency reserve, in addition to the 10 crores already invested, it is evident that such assistance as can be obtained from manipulating the reserve will fail to provide the sum in gold which it is considered advisable to hold in connection with the maintenance of a steady exchange. So far no authority has ventured to name a definite sum which should suffice for this purpose, but there is a general consensus of opinion, in which I fully concur, that a very considerable sum is required. The most ready way of obtaining such a large sum is by gold borrowings, but the opinion of the Currency Commission was strongly hostile to such a course, and the question therefore remains unanswered : How is the necessary stock of gold to be obtained ?

“17. I do not presume to offer any cut-and-dried solution of this difficult problem, but I venture to offer certain suggestions which, if adopted, would, I believe, go

a considerable way towards meeting the difficulty. I propose to create a special 'Gold Exchange Fund,' independent of, but in case of extraordinary requirements for exchange purposes to be used in conjunction with the gold resources of the currency reserve. The foundation of this fund would be the profit to be realized by converting into rupees the excess above £ 7,000,000 now held in gold in the currency reserve."

Can there be any doubt now as to the true cause for coining rupees ? Writers who have broadcasted that rupees were coined because people did not want gold cannot be said to have read correctly the history of the genesis of the exchange standard in India.

But was Sir Edward Law the evil genius who turned a sound system of currency into an unsound one by his disastrous policy of coining rupees ? Opponents of the Government as well as its supporters are all agreed* that this was a departure from the ideal of the Fowler Committee. In what precise respect the Government has departed from the recommendations of the Fowler Committee has, however, never been made clear anywhere in the official or non-official literature on the subject of Indian currency. What were the recommendations of the Fowler Committee ? It is usually pointed out, to the shame of the Government of India, that the Fowler Committee had said (it is as well to repeat it):—

"We are in favour of making the British sovereign a legal tender and a current coin in India. We also consider that, at the same time, the Indian Mints should be thrown open to the unrestricted coinage of gold Looking forward as we do to the effective establishment of a gold standard and currency based on the principles of the free inflow and outflow of gold, we recommend these measures for adoption."

That is true. But those who have blamed the Government have forgotten that same Committee also recommended that—

"The exclusive right to coin fresh rupees must remain vested in the Government of India; and though the existing stock of rupees may suffice for some time, regulations will ultimately be needed for providing such additions to the

* Even the Chamberlain Commission said that the Government had departed from the ideal of the Fowler Committee.

silver currency as may prove necessary. The Government should continue to give rupees for gold, but fresh rupees should not be coined until the proportion of gold in the currency is found to exceed the requirements of the public. We also recommend that any profit on the coinage of rupees should not be credited to the revenue or held as a portion of the ordinary balance of the Government of India, but should be kept in gold as a special reserve, entirely apart from the paper-currency reserve and the ordinary Treasury balances" [and be made freely available for foreign remittances whenever the exchange falls below specie point.]

Taking the two recommendations of the Committee together, where is the departure? What the Government has done is precisely what the Committee had recommended. That the Government of India or the Chamberlain Commission should have admitted for a moment that there was a departure is not a little odd, for the very despatch which conveyed the Minute of Sir Edward Law to the Secretary of State opens with remarks which show that Government was earnestly following the recommendations of the Fowler Committee. It runs:—

"In our despatch No. 301 of August 24, 1899, we wrote with reference to paragraph 60 of the Report of the Indian Currency Committee [i.e. the Fowler Committee], that any profit made on rupee coinage should be held in gold as a special reserve, has not escaped our attention; but the need for the coinage of additional rupees is not likely to occur for some time, and a decision on this point may be conveniently deferred."

What Sir Edward Law did was to carry that recommendation into effect when the occasion arrived. In view of this it is useless to belabour the Government of India if the ideal of a gold standard with a gold currency was defeated by the coinage of rupees. But, even though the Government has in ignorance taken the blame on itself, it cannot be rightly thrown at its door. If the project has been defeated by the coinage of rupees, the question must be referred to the Fowler Committee. Why did the Committee permit the coinage of rupees? There is no direct answer, but it may be guessed. It seems the Committee first decided that there should be a gold standard and a gold currency as desired by the Government of India. But then they seemed to have been worried by the question whether in the

ideal they had sketched they had made enough provision for the maintenance of the gold value of the rupee. In the view of the opponents of the Government of India the rupee ought to have been made either convertible as a bank note or a limited legal tender as a shilling. The Committee rejected both these demands as being unnecessary. Stating their ground for refusing to reduce the rupee to the status of a shilling, the Committee argued* :—

“It is true that in the United Kingdom the silver currency has a fixed limit of 40s., beyond which it cannot be used to pay a debt While it cannot be denied that 40s. limitation tends to emphasize and maintain the subsidiary character of our silver coinage, yet the essential factor in maintaining those tokens at their representative nominal value is not the statutory limit on the amount for which they are a legal tender in any one payment, but the limitation of their total issue. Provided the latter restriction is adequate, there is no essential reason why there need be any limit on the amount for which tokens are a tender by law.”

Regarding the necessity for convertibility the Committee observed† :—

“Outside the United Kingdom there are two principal instances of countries with a gold standard and currency, which admit silver coins to unlimited tender. These countries are France and the United States of America. In France the five-franc piece is an unlimited tender and for all internal purposes is equivalent to gold. The same remark applies in the United States to the silver dollar Both in France and the United States the Mints are now closed to the coinage of silver coins of unlimited tender. In neither country are such coins convertible by law into gold ; in both countries alike they are equivalent to gold for all internal purposes. For international payments, so far as specie is concerned, France and the United States depend ultimately on the international medium of exchange, which is gold. In the last resort, it is their gold which, acting through the foreign exchanges, maintains the whole mass of their currency at its nominal value for internal purposes.

* Report, par. 56.

† Report, pars. 57-60.

“The position of the currency question in India being such as we have explained in the preceding paragraph, we do not consider it necessary to recommend a different policy in the case of that country from that which is found sufficient in France and the United States, by imposing a legal obligation on the Government of India to give gold for rupees, or, in other words, to substitute the former for the latter on the demand of the holders. This obligation would impose on the Government of India a liability to find gold at a moment’s notice to an amount which cannot be defined beforehand, and the liability is one which, in our opinion, ought not to be accepted.”

Although confident of its opinions, the Committee was considerably impressed by those who, owing to the large quantity of rupees in circulation, entertained doubts

“whether the mere closing of the Indian Mints to silver would in practice be attended with such a restriction of the rupee currency as would make the rupee permanently exchangeable for gold at a fixed rate.”

So much was the Committee shaken by these doubts that it admitted that*

“the forces which affect the gold value of the rupee are complicated and obscure in their mode of operation, and we are unable, therefore, to say positively that the mere closing of the Mints to silver will, in practice, lead to such a limitation of the rupee currency, relatively to the demands for it, as will make the rupee permanently exchangeable for gold at a fixed rate.”

As a remedy against such a contingency the Committee thought that the Government of India should accept the obligation of convertibility of the rupee into gold for foreign remittances whenever the rupee fell below specie point. Having hit upon such a simple solution the next question was how was the Government to get its gold reserve ? Borrowing for the purposes of such a gold reserve was one way of doing it. But that project was somehow unpalatable to the Committee. Perhaps because

* Report, par. 58.

it had admonished the Government, in another part of its Report,* to

“husband the resources at their command, exercise a resolute economy, and restrict the growth of their gold obligations,”

or because it was a vicious principle to borrow

“for the establishment or the maintenance of a gold standard,”†

the Committee was averse to the proposal for gold borrowing. But if a gold reserve was not to be built up by borrowing, how could it be built up otherwise? The Committee seems to have been considerably troubled over the problem of finding an alternative mode of raising a reserve until some member of it, probably at a moment when his intellect was rather weak, proposed ‘Well, why not allow the Governments to coin rupees? If that were allowed it could easily build up a gold reserve without having to borrow, and can then discharge the obligation of convertibility for foreign remittances.’ So innocuous seemed the proposal that the Committee wholeheartedly adopted and incorporated it into its Report with a certain sigh of relief that is unmistakable from the firm language in which it was expressed.

This may or may not be a correct interpretation of the reasoning employed by the Committee in permitting the Government to coin rupees. But the fact remains that the Committee did not realize what was involved in that recommendation. First of all, what was to happen to the gold standard and currency if the coinage of rupees was to go on? In this regard is it possible to have more respect for a Committee which lays down on the one hand the ideal of a gold standard and currency, and permits on the other hand the coinage of rupees, than Bagehot felt for the Directors of the Bank of England, who on March 25, 1819, passed that notorious resolution:—

“That the Court cannot refrain from adverting to an opinion, strongly insisted upon by some, that the Bank has only to reduce its issues to obtain a favourable turn in the Exchanges, and a consequent influx of the precious metals; the Court conceives it to be its duty to declare that it is unable to discover any solid foundation for such a sentiment.”

* Report, par. 70.

† See the Reservations to the Report by Campbell Holland and Muir Report, p. 27.

If the opinions of the Directors were classical for their nonsense, are those of the Fowler Committee less so ? Is there any difference between them ? Bagehot, in commenting upon the sentiments embodied in the resolution, not dissimilar to the recommendations of the Fowler Committee, urged some extenuating circumstances which compel us to forgive the Bank Directors their nonsense. The Directors lived in an age when economic reasoning was in a confused state ; nor were they anxious for the “influx of gold,” being perfectly satisfied with paper. None of these circumstances can excuse the nonsense of the Fowler Committee. They framed their recommendations at a time when the contrary of what the Bank Directors had held was an established axiom. Besides, it cannot be said that they were not anxious for the influx of gold into the Indian currency. On the other hand, that was just the thing they were looking forward to. Consequently, they should have carefully weighed their words and allowed nothing that was inconsistent with their main object. In not paying sufficient heed to that elementary principle known as Gresham’s Law, the Committee not only made a fool of itself but defeated the principal object it had set forth in the earlier part of its Report.

Secondly, was it necessary to endow the Government with a power to coin rupees ? What was the nature of the problem the Committee was called upon to decide ? Let us re-state it. The Herschell Committee,* by way of modifying the proposals of the Government of India, submitted to it in 1892, had introduced a proviso by which the Mints, although closed to the public, were to remain open to the Government for the coinage of rupees—a proviso which, by the way, reveals that after all that imposing survey the Committee remained supremely ignorant of the secret why, in the monetary systems it investigated, the currency maintained its parity with gold with little or no gold. If it had understood that it was limitation of issue which maintained this parity it would not have introduced the proviso which it did. However pernicious the proviso, the Committee must be excused for that indiscretion, for it was afraid that owing to the Mint closure there might be a sudden contraction of currency, and as it had not made gold general

* See Chap. IV, *supra*, p. 471.

legal tender it had to provide for the necessary addition to the currency, and this it thought could best be done by Government having the power to coin rupees. Fortunately for the Government the occasion for an addition did not arise for some time, till 1898, and there was therefore no necessity to exercise, that power. But when such an occasion did arise the Government, as was pointed out before, refused to exercise that power—and held to the view that the additions to Indian currency, instead of being made by further coinage of rupees, should be made by an influx of gold. The government was the strongest opponent of Mr. Lindsay, who was then agitating that it was safe and economical to compel it to make the necessary additions by under taking to coin rupees. It was to adjudicate in the dispute between the Government of India on the one hand and Mr. Lindsay on the other, the former desiring additions by gold coinage and the latter by rupee coinage, that the Fowler Committee was called into being. If the Government was anxious to add to the currency by coining more rupees rather than by the influx of gold, there was no necessity to appoint the Fowler Committee, Such a power had already been given to it by the Hershell Committee. It was because the Government did not want to exercise that ill-charged power that an appeal to a new Committee became necessary. Faced with this immediate problem of how best to expand the currency in relief of monetary stringency, the Committee had solved it in one part of its Report by prescribing that gold should be made legal tender, so that any debtor who was unable to find rupees could have the option of paying his creditors in gold. If gold was allowed to be the general medium of exchange, was not the proposal to coin rupees a superfluous one, quite uncalled for?

Thirdly, could the proposal to coin rupees as a means of building up a gold reserve be justified as calculated to maintain the value of the rupee? The one thing essential to the maintenance of the value of the rupee was a limitation on its issue. The, Committee talked in a very learned manner about the shilling as being maintained in value in consequence of a limitation in its issue. But did it understand how the shilling was maintained limited in quantity? If it is true that it is not the limit on legal tender, but the limit on the total volume, that maintains the value of the shilling, why is not the shilling issued in unlimited quantities? The manufacture of the shilling is profitable in the same way as is the manufacture of the rupee. Why does not

the British Government coin it in unlimited quantities ? Only because shillings cannot be paid out in unlimited quantities ? If the Government could pay its Chancellors of Exchequer, Cabinet Ministers, and the hosts of officials and clerks, and if they in turn could pay their grocers, milkmen, brewers, and butchers in shillings, there could be nothing to prevent the over-issue of shillings. But it is because nobody can pay out shillings in unlimited quantities that nobody will have them in unlimited quantities. It is the absence of a wholesale market, so to say, due to a limit on legal tender, that stops the Government from indulging in the over-issue of shillings. The Committee was therefore wrong in arguing that the limit on legal tender had nothing to do with the maintenance of the value of the shilling. On the other hand, if limitation of issue is the prime condition which maintains the value of a token coin, one means of making such a limit effective is to put a limit on its legal tender.

With regard to its views on convertibility, its reasoning was equally confused. To say what was sufficient for France and America should be sufficient for India, was like the blind leading the blind. It was entirely erroneous to argue that it was not convertibility but their gold

“which acting through the foreign exchanges, maintains the whole mass of their currency at its nominal value for internal purposes.”

Quite the contrary. France and America did not need convertibility to protect their currency because the silver franc and the silver dollar were absolutely limited in quantity. Indeed, far from being protected by the influx of gold, the limitation of issue not only maintained their value, but permitted the retention of whatever gold there was in those countries. Now, the Committee, instead of venturing into long-winded and pointless disquisitions, should have insisted that there was no necessity either to prescribe a limit of tender or convertibility with regard to the rupee, so long as there were other ways of restricting its over-issue. Limitation of legal tender or convertibility can be said to be essential only because they are the means of bringing about a limitation of issue, and if the requisite limitation of issue was provided for in other ways, the purpose for which convertibility or limitation of legal tender were asked for was

accomplished. Now, was not the closing of the Mints a sufficient limitation on the volume of rupees ? Indeed, if the closing of the Mints was not an effective limitation on the issue of rupees, what else could have been ? Was not the closing of the Mints the same thing as regulating the currency on the principle of a fixed-issue system so well known in the matter of regulating paper currencies ? That it was, could hardly be denied. That being so, the only question was whether the volume of rupees already in circulation was distinctly less than the minimum amount of legal-tender money ever necessary for the internal circulation of the country. The Government of India had foreseen the volume of rupees in circulation becoming in excess of such a minimum and had accordingly provided against it. In their despatch of March 3, 1898, outlining their plans, the Government observed:—

“9..... We know now that one of the main reasons of this failure [to maintain the exchange value of the rupee] 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..... 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... 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.

“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.But some considerations point to the amount being within quite manageable limits. For example, there are twenty-four crores, more or less, of currency notes in circulation, including the amounts held in our 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 that 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, twenty-four crores of rupees is the outside limit of the amount it might be necessary to convert into gold coin in order to introduce a stable exchange of 16d., 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 withdrawing 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, as we believe, ineffective ; in the first place the permanent locking up of twenty crores would cost us the interest on that amount, or on the amount of gold borrowed in England during the suspension of drawings, and 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 [by borrowing] both for the practical purpose of taking the place of the silver and in order to establish confidence in the issue of our measures.”

At the time the Committee reported the volume of rupees in circulation was not redundant, as was proved by the fact that exchange was rising and gold was flowing in. That the closing of the Mints had therefore brought about an effective limit is beyond dispute, and was even admitted by the Committee.* But

* Report, p. 17.