different species that an exchange against a particular species did not necessarily close the transaction ; the coin must, in certain circumstances, have been only an intermediate to be further bartered against another, and so on till the one of the requisite species was obtained. This is sufficient indication that society had sunk into a state of barter. If this alone was the flaw in the situation, it would have been only as bad as that of international trade under diversity of coinages. But it was further complicated by the fact that although the denomination of the coins was the same, their metalic contents differed considerably. Owing to this, one coin bore a discount or a premium in relation to another of the same name. In the absence of knowledge as to the amount of premium or discount, every one cared to receive a coin of the species known to him and current in his territory. On the whole, the obstacles to commerce arising from such a situation could not have been less than those emanating from the mandate of Lycurgus, who compelled the Lacedaemonians to use iron money in order that its weight might prevent them from overmuch trading. The situation, besides being irritating, was aggravated by the presence of an element of gall in it. Capital invested in providing a currency is a tax upon the productive resources of the community. Nevertheless, wrote James Wilson,* no one would question

> "that the time and labour which are saved by the interposition of coin, as compared with a system of barter, form an ample remuneration for the portion of capital withdrawn from productive sources, to act as a single circulator of commodities, by rendering the remainder of the capital of the country so much the more productive."

What is, then, to be said of a monetary system which did not obviate the evil consequences of barter, although enormous capital was widhdrawn from productive sources, to act as a single circulator of commodities ? Diseased money is worse than want of money. The latter at least saves the cost. But society must have money, and it must be good money, too. The task, therefore, of evolving good money out of bad money fell upon the shoulders, of the English East India Company, who had in the meanwhile succeeded to the Empire of the Moghuls in India.

* *Capital Currency and Banking,* 1847, p. 15.

The lines of reform were first laid down by the Directors of the Company in their famous Despatch, dated April 25, 1806,* to the authorities administering their territories in India. In this historic document they observed :—

> "17. It is an opinion supported by the best authorities, and proved by experience, that coins of gold and silver cannot circulate as legal tenders of payment at fixed relative values..... without loss; this loss is occasioned by the fluctuating value of the metals of which the coins are formed. A proportion between the gold and silver coin is fixed by law, according to the value of the metals, and it may be on the justest principles, but owing to the change of circumstances gold may become of greater value in relation to silver than at the time the proportion was fixed, it therefore becomes profitable to exchange silver or gold, so the coin of that metal is withdrawn from circulation ; and if silver should increase in its value in relation to gold, the same circumstances would tend to reduce the quantity of silver coin in circulation. As it is impossible to prevent the fluctuation in the value of the metals, so it is also equally impracticable to prevent the consequences thereof on the coins made from these metals ..... To adjust the relative values of gold and silver coin according to the fluctuations in the values of the metals would create continual difficulties, and the establishment of such a principle would of itself tend to perpetuate inconvenience and loss."

They therefore declared themselves in favour of monometalism as the ideal for the Indian currency of the future, and prescribed :—

> "21..... that silver should be the universal money of account (in India), and that all ..... accounts should be kept in the same denominations of rupees, annas and pice .....

The rupee was not, however, to be the same as that of the Moghul Emperors in weight and fineness The proposal that

> "9 .... the new rupee.....be of the gross weight of—

Troy grains	...	180
Deduct one-twelfth alloy	...	15
And contain of fine silver troy grs.		165"

*H. of C. Return 127 of 1898.

Such were the proposals put forth by the Court of Directors for the reform of Indian currency.

The choice of a rupee weighing 180 grs. troy and containing 165 grs. pure silver as the unit for the future currency system of India was a well-reasoned choice.

The primary reason for selecting this particular weight for the rupee seems to have been the desire to make it as little of a departure as possible from the existing practice. In their attempts to reduce to some kind of order the disorderly currencies bequeathed to them by the Moghuls by placing them on a bimetallic basis, the Governments of the three Presidencies had already made a great advance by selecting out of the innumerable coins then circulating in the country a species of gold and silver coin as the exclusive media of exchange for their respective territories. The weights and fineness of the coins selected as the principal units of currency, with other particulars, may be noted from the summary table I. (Page 344)

To reduce these principal units of the different Presidencies to a single principal unit, the nearest and the least inconvenient magnitude of weight which would at the same time be an integral number was obviously 180 grs., for in no case did it differ from the weights of any of the prevailing units in any marked degree. Besides, it was believed that 180, or rather 179.5511, grs. was the standard weight of the rupee coin originally issued from the Moghul Mints, so that the adoption of it was really a restoration of the old unit and not the introduction of a new one.* Another advantage claimed in favour of a unit of 180 grs. was that such a unit of currency would again become what it had ceased to be, the unit of weight also. It was agreed† that the unit of weight in India had at all times previously been linked up with that of the principal coin, so that the *seer* and the *manual* weights were simply multiples of the rupee, which originally weighed 179.6 grs. troy. Now, if the weight of the principal coin to be established was to be different from 180 grs. troy, it was believed there would be an unhappy deviation from the ancient practice which made the weight of the coin the basis of other weights and measures. Besides, a unit of 180 grs. weight was not only

* Cf. The Despatch, op. cit., para. 8.

† Cf. para. 26-28 of the letter from James Prinsep to the Calcutta Mint Committee, printed in the Appendix to the Indian Tables by John Muller, Calcutta, 1836.

TABLE I

Principal Units of Currency

Issued by the Government of	Territory in which it circulated.	Date and Authority of Issue.	Silver Coins.			Gold Coins.		
			Name.	Gross Weight Troy Grs.	Pure Contents Troy Grs.	Name.	Gross Weight Troy Grs.	Pure Contents Troy Grs.
Bombay	Presidency		Surat Rupee	179.0	164.740	Mohur	179	164.740
Madras	"		Arcot "	176.4	166.477	Star Pagoda	52.40	42.55
Bengal	Bengal, Bihar and Orissa Cuttock	Regulations XXXV of 1793 XII of 1805	Sicca Rupee (19th Sun)	179.66	175.927	Mohur	190.804	189.40
	Ceded Provinces Conquered Provinces	XLV of 1803	Furrukabad Rupee (Lucknow Sicca of the 45th Sun)	173	166.135	—	—	—
	Benares Provinces	III of 1806	Benares Rupee (Muchleedar)	175	168.875	—	—	—

suitable from this point of view, but had also in its favour the added convenience of assimilating the Indian with the English units of weight.‡

While these were the reasons in favour§ of fixing the weight of the principal unit of currency at 180 grs. troy, the project of making it 165 grs. fine was not without its justification. The ruling consideration in selecting 165 grs. as the standard of fineness was, as in the matter of selecting the standard weight, to cause the least possible disturbance in existing arrangements. That this standard of fineness was not very different from those of the silver coins, recognized by the different Governments in India as the principal units of their currency, may be seen from the following comparative statement.

TABLE II

DEVIATIONS OF THE PROPOSED STANDARD OF FINENESS FROM THAT OF THE PRINCIPAL RECOGNIZED RUPEES

Silver Coins recognized as Principal Units and their Fineness		Standard Fineness of the Propose Silver Rupee Troy Grs.	More valuable than the Proposed Rupee		Less valuable than the Proposed Rupee	
Name of the Coin	Its Pure Contents Troy Grs.		In Grs.	By p.c.	In Grs.	By p.c.
Surat Rupee	164.74	165	...	...	.26	.157
Arcot Rupee	166.477	165	1.477	.887	...	...
Sicca Rupee	175.927	165	10.927	6.211	...	...
Farrukabad R.	166.135	165	1.135	.683	...	...
Benares Rupee	169.251	165	4.251	2.511	...	...

‡ *Ibid.* para. 28. How the English and the Indian systems of weights were made to correspond to each other may be seen from the following :—

Indian				English	
8 ruttees	=	1 massa	=	15 troy	grs.
12 massas	=	1 tola (or sicca)	=	180 troy	grs.
80 tolas	=	1 seer	=	2½ troy	pounds.
40 seers	=	1 maund (or mun)	=	100 troy	pounds.

§ Attention may be drawn in this connection to the dissenting opinion of Captain Jervis on the project of 180 grs. troy as the unit of weight for the rupee. Cf. his most exhaustive treatise called *The Expediency and Facility of establishing the Metrological and Monetary Systems throughout India on a Scientific and Permanent Basis, grounded on an Analytical Review of the Weights, Measures and Coins of India* ..... Bombay, 1836, pp. 49-64.

It will thus be seen that, with the exception of the Sicca and the Benares rupees, the proposed standard of fineness agreed so closely with those of the other rupees that the interest of obtaining a complete uniformity without considerable dislocation overruled all possible objections to its adoption. Another consideration that seemed to have prevailed upon the Court of Directors in selecting 165 grs. as the standard of fineness was that, in conjunction with 180 grs. as the standard weight, the arrangement was calculated to make the rupee eleven-twelfths fine. To determine upon a particular fineness was too technical a matter for the Court of Directors. It was, however, the opinion of the British Committee on Mint and Coinage, appointed in 1803, that* "one-twelfth alloy and eleven-twelfths fine is by a variety of extensive experiments proved to be the best proportion, or at least as good as any which could have been chosen." This standard, so authoritatively upheld, the Court desired to incorporate in their new scheme of Indian currency. They therefore desired to make the rupee eleven-twelfths fine. But to do so was also to make the rupee 165 grs. pure-a content which they desired, from the point of view stated above, the rupee to possess.

Reviewing the preference of the Court of Directors for monometallism from the vantage-ground of latter-day events, one might be inclined to look upon it as a little too short-sighted. At the time, however, the preference was well founded. One of the first measures, the three Presidencies, into which the country was divided for purposes of administration, had adopted on their assuming the government of the country, was to change the parallel standard of the Moghuls into a double standard by establishing a legal ratio of exchange between the mohur, the pagoda, and the rupee. But in none of the Presidencies was the experiment a complete success.

In Bengal† the Government, on June 2, 1766, determined upon the issue of a gold mohur weighing 179.66 grs. troy, and containing 149.92 grs., troy of pure metal, as legal tender at 14 Sicca rupees, to relieve the currency stringency caused

* Cf. The Despatch, op. cit., para. 9.

† F. C Harrison, "The Past Action of the Indian Government with regard to Gold," in *Economic Journal,* Vol. III, p. 54 *et seq.* Also Minute by Sir John Shore, in Bengal Public Consultations, dated September 29, 1796.

largely by its own act of locking up the revenue collections in its treasuries, to the disadvantage of commerce. This was a legal ratio of 16.45 to 1, and as it widely deviated from the market ratio of 14.81 to 1, this attempt to secure a concurrent circulation of the two coins was foredoomed to failure. Owing to the drain of silver on Bengal from China, Madras, and Bombay, the currency stringency grew worse, so much so that another gold mohur was issued by the Government on March 20, 1769, weighing 190.773 grs. troy and containing 190.086 grs. pure gold with a value fixed at 16 Sicca rupees. This was a legal ratio of 14.81 to 1. But, as it was higher than the market ratio of the time both in India (14 to 1) and in Europe (14.61 to 1), this second effort to bring about a concurrent circulation fared no better than the first. So perplexing seemed to be the task of accurate rating that the Government reverted to monometallism by stopping the coinage of gold on December 3, 1788, and when the monetary stringency again compelled it to resume in 1790 the coinage of gold, it preferred to let the mohur and the rupee circulate at their market value without making any attempt to link them by a fixed ratio. It was not until 1793 that a third attempt was made to forge a double standard in Bengal. A new mohur was issued in that year, weighing 190.895 grs. troy and containing 189.4037 grs. of pure gold, and made legal tender at 16 Sicca rupees. This was a ratio of 14.86 to 1, but, as it did not conform to the ratio then prevalent in the market this third attempt to establish bimetallism in Bengal failed as did those made in 1766 and 1769.

The like endeavours of the Government of Madras* proved more futile than those of Bengal. The first attempt at bimetalism under the British in that Presidency was made in the year 1749, when 350 Arcot rupees were legally rated at 100 Star pagodas. As compared with the then market ratio this rating involved an under-valuation of the pagoda, the gold coin of the Presidency. The disappearance of the pagoda caused a monetary stringency, and the Government in December, 1750, was obliged to restore it to currency. This it did by adopting the twofold plan of causing an import of gold on Government account, so as to equalize the mint ratio to the market ratio, and of compelling the receipts and payments of Government treasuries to be exclusively in pagodas. The latter device proved of small value ;

*H. Dodwell, "Substitution of Silver for Gold in South India," in the *Indian Journal of Economics,* January, 1921.

but the former by its magnitude was efficacious enough to ease the situation. Unluckily, the case was only temporary. Between 1756 and 1771 the market ratio of the rupee and the pagoda again underwent a considerable change. In 1756 it was 364 to 100, and in 1768 it was 370 to 100. It was not till after 1768 that the market ratio became equal to the legal ratio fixed in 1749 and remained steady for about twelve years. But the increased imports of silver, rendered necessary for the prosecution of the second Mysore war, once more disturbed the ratio, which at the close of the war stood at 400 Arcot rupees to 100 Star pagodas. After the end of the war, the Government of Madras made another attempt to bring about a concurrent circulation between the rupee and the pagoda. But instead of making the market ratio of 400 to 100 the legal ratio, it was led by the then increasing imports of gold into the Presidency to hope that the market ratio would in time rise to that legally established in 1749. In an expectant mood so induced it decided, in 1790, to anticipate the event by fixing the ratio first at 365 to 100. The result was bound to be different from that desired, for it was an under-valuation of the pagoda. But instead of rectifying the error, the Government proceeded to aggravate it by raising the ratio still further to 350 to 100 in 1797, with the effect that the pagoda entirely went out of circulation, and the final attempt at bimetallism thus ended in a miserable failure.

The Government of Bombay seemed better instructed in the mechanics of bimetallism, although that did not help it to overcome the practical difficulties of the system. On the first occasion when bimetallism was introduced in the Presidency,* the mohur and the rupee were rated at the ratio of 15.70 to 1. But at this ratio the mohur was found to be over-rated, and accordingly, in August, 1774, the Mint Master was directed to coin gold mohurs of the fineness of a Venetian and of the weight of the silver rupee. This change brought down the legal ratio to 14.83 to 1, very nearly, though not exactly, to the then prevailing market ratio of 15 to 1, and had nothing untoward happened, bimetallism would have had a greater success in Bombay than it actually had in the other two Presidencies. But this was not to be, for the situation was completely altered by the dishonesty of the Nawab of Surat, who allowed his rupees, which were of the same weight and fineness as the Bombay

* Report of Dr. Scott on the History of Coinage in the Bombay Presidency, with Appendices, Public Consultations (Bombay, dated January 27, 1801).

rupees, to be debased to the extent of 10, 12, and even 15 per cent. This act of debasement could not have had any disturbing effect on the bimetallic system prevalent in the Bombay Presidency, had it not been for the fact that the Nawab's (or Surat) rupees were by agreement admitted to circulation in the Company's territories at par with the Bombay rupees. As a result of their being legal tender the Surat rupees, once they were debased, not only drove out the Bombay rupees from circulation, but also the mohur, for as rated to the debased Surat rupees the ratio became unfavourable to gold, and the one chance for a successful bimetallic system vahished away. The question of fixing up a bimetallic ratio between the mohur and the rupee again cropped up when the Government of Bombay permitted the coinage of Surat rupees at its Mint. To have continued the coinage of the gold mohur according to the Regulation of 1774 was out of the question. One Bombay mohur contained 177.38 grs. of pure gold, and 15 Surat rupees of the standard of 1800 contained 247.11 grs. of silver. By this Regulation the proportion of silver to gold would have been $\frac{247.11}{177.38,}$ i.e. 13.9 to 1. Here the mohur would have been much under-valued. It was therefore resolved to alter the standard of the mohur to that of the Surat rupee, so as to give a ratio of 14.9 to 1. But as the market ratio was inclined towards 15.5 to 1, the experiment was not altogether a success.

In the light of this experience before them, the Court of Directors of the East India Company did well in fixing upon a monometallic standard as the basis of the future currency system of India. The principal object of all currency regulations is that the different units of money should bear a fixed relation of value to one another. Without this fixity of value, the currency would be in a state of confusion, and no precaution would be too great against even a temporary disturbance of that fixity. Fixity of value between the various components of the currency is so essential a requisite in a well-regulated monetary system that we need hardly be surprised if the Court of Directors attached special importance to it, as they may well have done, particularly when they were engaged in the task of placing the currency on a sound and permanent footing. Nor can it be said

that their choice of monometallism was ill-advised, for it must be admitted that a single standard better guarantees this fixity than does the double standard. Under the former it is spontaneous, under the latter it is forced.

These recommendations of the Court of Directors were left to the different Governments in India to be carried into effect at their discretion as to the time and manner of doing it. But it was some time before steps were taken in consonance with these orders, and even then, it was on the realization of those parts of the programme of the Court which pertained to the establishment of a uniform currency that the efforts of the different Governments were first concentrated.

The task of reducing the existing units of currency to that proposed by the Court was first accomplished in Madras. On January 7, 1818, the Government issued a Proclamation* by which its old units of currency—the Arcot rupee and the Star pagoda—were superseded by new units, a gold rupee and a silver rupee, each weighing 180 grs. troy and containing 165 grs. of fine metal. Madras was followed by Bombay six years later by a Proclamation† of October 6, 1824, which declared a gold rupee and a silver rupee of the new Madras standard to be the only units of currency in that Presidency. The Government of Bengal had a much bigger problem to handle. It had three different principal units of silver currency to be reduced to the standard proposed by the Court. It commenced its work of reorganization by a system of elimination and alteration. In 1819, it doscontinued‡ the coinage of the Benares rupee and substituted in its place the Furrukabad rupee, the weight and fineness of which were altered to 180.234 and 135.215 grs. troy respectively. Apparently this was a step away from the right direction. But even here, the purpose of uniformity, so far as fineness was concerned, was discernible, for it made the Furrukabad rupee, like the new Madras and Bombay rupees, eleven-twelfth fine. Having got rid of the Benares rupee, the next step was to assimilate the standard of the Furrukabad rupee to that of Madras and Bombay, as may be seen from the following table.

* Cf. Fort St. George Publc Depart. Consultations, No. 19, dated January 7, 1818.

† Cf. Bombay Financial Consultations, dated October 6, 1824.

‡ Bengal Regulation XI of 1819.

Thus, without abrogating the bimetallic system, substantial steps were taken in realizing the ideal unit proposed by the Court, as may be seen from the following table.

TABLE III

UNIFORMITY OF COINAGE AT THE END OF AD. 1833

Issued the Government of	Silver Coins			Gold Coins			Legal Ratio
	Denomination	Weight	Fineness	Denomination	Weight	Fineness	
Bengal	Sicca Rupee	192	176 or $\frac{11}{12}$	Mohur	204.710	187.651	1 to 15
	Furrukabad Rupee	180	165 or $\frac{11}{12}$	...	...	...	...
Bombay	Silver Rupee	180	165 or $\frac{11}{12}$	Gold Rupee	180	165 or $\frac{11}{12}$	1 to 15
Madras	Silver Rupee	180	165 or $\frac{11}{12}$	" "	180	165 or $\frac{11}{12}$	1 to 15

Taking stock of the position as it was at the end of 1833, we find that with the exception of the Sicca rupee and the gold mohur of Bengal, that part of the scheme of the Directors which pertained to the uniformity of coinage was an accomplished fact. Nothing more remained to carry it to completion than to discontinue the Sicca rupee and to demonetize gold. At this point, however, arose a conflict between the Court of Directors and the three Governments in India. Considerable reluctance was shown to the demonetization of gold. The Government of Madras, which was the first to undertake the reform of its currency according to the plan of the Court, not only insisted upon continuing the coinage of gold along with that of the rupee,* but stoutly refused to deviate from the system of double legal tender at a fixed ratio prevalent in its territories,†

* The Court of Directors were willing to permit the coinage and circulation of gold *unlinked* to the rupee, for they had observed in their Despatch :—

"16. Although we are fully satisfied of the propriety of the silver rupee being the principal measure of value and the money of account, yet we are by no means desirous of checking the circulation of gold, but of establishing a gold coin on a principle fitted for general use. This coin in our opinion should be called a gold rupee and be made of the same standard as the silver rupee."

† Cf. Fort St.George Public Consultations of August 19, 1817, particularly the letter of the Accountant-General entered thereon.

notwithstanding the repeated remonstrances addressed by the Court.* The Government of Bengal clung to the bimetallic standard with equal tenacity. Rather than demonetize the gold mohur, it took steps to alter its standard† by reducing its pure contents‡ from 189.4037 to 187.651 troy grs., so as to re-establish a bimetallic system on the basis of the ratio adopted by Madras in 1818. So great was its adherence to the bimetallic standard that in 1833 it undertook to alter§ the weight and fineness of the Sicca rupee to 196 grs. troy and 176 grs. fine, probably to rectify a likely divergence between the legal and the market ratios of the mohur to the rupee.¶

But in another direction the Government in India wanted to go further than the Court desired. The Court thought a uniform currency (i.e. a currency composed of like but independent units) was all that India needed. Indeed, they had given the Governments to understand that they did not wish for more in the matter of simplification of currency and were perfectly willing to allow the Sicca and the mohur to remain as they were, unassimilated.§§ A uniform currency was no doubt a great advance on the order of things such as was left by the successors of the Moghuls. But that was not enough, and the needs of the situation demanded a common currency based on a single unit in place of a uniform currency. Under the system of uniform currency each Presidency coined its own money, and the money coined at the Mints of the other Presidencies was not legal tender in its territories except at the Mint. This monetary independence would not have been very harmful if there had existed also financial independence between the three Presidencies. As a matter of fact, although each Presidency had its own fiscal system, yet they depended upon one another for the finance of their deficits. There was a regular system of "supply" between them, and the surplus in one was being constantly drawn upon to meet the deficits in others. In the absence of

* Cf. The Public Despatches to Madras dated March 6, 1810 ; July 10, 1811 ; and June 12, 1816.

† Preamble to the Bengal Regulation XIV of 1818.

‡ It, however, increased its weight from 190.895 to 204.710 troy grs.

§ Bengal Regulation VII of 1833.

¶ It may be that this alteration was also intended to make the Sicca rupee eleven-twelfths fine.

§§Cf. Despatch to Bengal dated March 11, 1829.

a common currency this resource operation was considerably hampered. The difficulties caused by the absence of a common currency in the way of the "supply" operation made themselves felt in two different ways. Not being able to use as legal tender the money of other Presidencies, each was obliged to lock up, to the disadvantage of commerce, large working balances in order to be self-sufficient.* The very system which imposed the necessity of large balances also rendered relief from other Presidencies less efficacious. For the supply was of necessity in the form of the currency of the Presidency which granted, it, and before it could be utilized it had to be re-coined into the currency of the needy Presidency. Besides the loss *on* re-coinage, such a system obviously involved inconvenience to merchants and embarassment to the Government.†

At the end of 1833, therefore, the position was that the Court desired to have a uniform currency with a single standard of silver, while the authorities in India wished for a common currency with a bimetallic standard. Notwithstanding these divergent views, the actual state of the currency might have continued as it was without any substantial alteration either way. But the year 1833 saw an important constitutional change in the administrative relations between the three Presidential ‡ Governments in India. In that year by an Act of Parliaments there was set up an Imperial system of administration with a centralization of all legislative and executive authority over the whole of India. This change in the administrative system, perforce, called forth a change in the prevailing monetary systems. It required local coinages to be replaced by Imperial

* The Accountant-General of Bengal, in a letter to the Calcutta Mint Committee, dated November 21, 1823 wrote:—

> "Para. 32. The amount of the balance must also necessarily depend upon the state of the currency. If the Madras, Bombay, and Furrukabad rupees instaed of differing in weight and intrinsic value were coined of one standard weight and value bearing one inscription and in no way differing, the surplus of one Presidency would at all times be available for the deficiency of another, without passing through the Mint, and the balance of India might be reduced in proporion to the increased availability of currency for the disbursements of the three Presidencies" (Bombay Financial Consultations, February 25, 1824).

† The evil of the system had already made itself felt in Bombay, where the Government had been obliged by a Proclamation dated April 9, 1824, to declare the Furrukabad rupee of 1819 standard as legal tender within its territories on a par with the Bombay rupee, in order to facilitate the supply operation from Bengal. Cf. Bombay Financial Consultations, dated April 14, 1824.

‡ 3 & 4 Will, IV, c; 85.

coinage. In other words, it favoured the cause of a common currency as against that of a mere uniform currency. The authorities in India were not slow to realize the force of events. The Imperial Government set up by Parliament was not content to act the part of the Dewans or agents of the Moghuls, as the British had theretofore done, and did not like that coins should be issued in the name of the defunct Moghul emperors who had ceased to govern. It was anxious to throw off the false garb* and issue an Imperial coinage in its own name, which being common to the whole of India would convey its common sway. Accordingly, an early opportunity was taken to give effect to this policy. By an Act of the Imperial Government (XVII of 1835) a common currency was introduced for the whole of India, as the sole legal tender. But the Imperial Government went beyond and, as if by way of concession to the Court—for the Court did most vehemently protest against this common currency in so far as it superseded the Sicca rupee†—legislated "*that no gold coin shall henceforward be a legal tender of payment in any of the territories of the East India Company*." ‡

That an Imperial Administration should have been by force of necessity led to the establishment of a common currency for the whole of India is quite conceivable. But it is not clear why it should have abrogated the bimetallic system after having maintained it for so long. Indeed, when it is recalled how the authorities had previously set their faces against the destruction of the bimetallic system, and how careful they were not to allow their coinage reforms to disturb it any more violently than they could help, the provision of the Act demonetizing gold was a grim surprise. However, for the sudden *volte-face* displayed therein, the Currency Act (XVII of 1835) will ever remain memorable in the annals of the Indian history. It marked the culminating-point of a long and arduous process of monetary reform and placed India on a silver monometallic basis, with a rupee weighing 180 grs. troy and containing 165 grs. fine as the common currency and sole legal tender throughout the country.

No piece of British India legislation has led to a greater

* Cf. the sentiments of Tucker in his *Memorials of Indian Government* (ed. by Kaye), 1853, pp. 17-19.

†Cf. their Financial Despatch to India, No. 9, dated July 27, 1836.

‡ Section 9 of Act XVII of 1835.

discontent in later years than this Act XVII of 1835. In so far as the Act abrogated the bimetallic system, it has been viewed with a surprising degree of equanimity. Not all its critics, however, are aware* that what the Act primarily decreed was a substitution of bimetallism by monometallism. The commonly entertained view of the Act seems to be that it replaced a gold standard by a silver standard. But even if the truth were more generally known, it would not justify any hostile attitude towards the measure on that score. For, what would have been the consequences to India of the gold discoveries of California and Australia in the middle of the nineteenth century, if she had preserved her bimetallic system ? It is well known how this increase in the production of gold relatively to that of silver led to a divergence in the mint and the market ratios of the two metals after the year 1850. The under-valuation of silver, though not very great, was great enough to confront the bimetallic countries with a serious situation in which the silver currency, including the small change, was rapidly passing out of circulation. The United States† was obliged by the law of 1853 to reduce the standard of its small silver coins sufficiently to keep them, dollar for dollar, below their gold value in order to keep them in circulation. France, Belgium, Switzerland, and Italy, which had a uniform currency based on the bimetallic model of the French with reciprocal legal tender,‡ were faced with similar difficulties. Lest a separatist policy on the part of

* To mention only one, cf. S. V. Doraiswami, *Indian Currency,* Madras, 1915. *passim.*

† Laughlin, J. L, *History of Bimetallism,* New York, 1886, pp. 79-83.

‡ The cultural influence of France had led the other countries of Latin origin to adopt the French monetary system. The political independence acquired by Belgium in 1831 was followed by a change in her monetary system. By the law of 1832, Belgium from a monetary point of view, became a satellite of France. By that law she adopted in its entirety the monetary system of France, and even went so far as to give the French gold pieces of 20 and 40 francs and to the French silver 5-franc pieces the power of legal tender in Belgium. In Switzerland, Art. 36 of the Constitution of 1848 had vested in the Federal Government the authority to coin money. The law of May 7, 1850, adopted the French monetary system for Switzerland : Art. 8 declared "that such foreign silver coins as were minted in sufficiently close proximity with the French system might be granted a legal status as regular media for the payment of debts in Switzerland." The various Italian States, prior to unification, had, like the Swiss Cantons, each its own currency. But with the desire for uniformity of coinage consequent upon unification, there arose a problem either of selecting one of the old systems or of adopting a new one which would be common to the whole country. Some form of a grateful memorial to France was uppermost in the minds of the Italians for the help the French gave in the matter of their independence, and the adoption of the French monetary system for Italy was deemed to serve the purpose. Fortunately, Sardinia already possessed the French system, and the law of August 24, 1862, extended it to the whole of Italy, with the lire as the unit, and also conferred legal-tender power on the coins of France, Belgium, and Switzerland, Cf. H.P. Willis, *History of the Latin monetary Union,* Chicago, 1910, pp. 15, 27, 36, 37.

each nation,* to protect their silver currency and particularly the small change, should disrupt the monetary harmony prevailing among them all, they were compelled to meet in a convention, dated November 20, 1865, which required the parties, since collectively called the Latin Union, to lower, in the order to maintain them in circulation, the silver pieces of 2 francs, 1 franc, 50 centimes, and 20 centimes from a standard of $\frac{900}{1000}$ fine to $\frac{835}{1000}$ and to make them subsidiary coins.† It is true that the Government of India also came in for trouble as a result of this disturbance in the relative value of gold and silver, but that trouble was due to its own silly act.‡ The currency law of 1835 had not closed the Mints to the free coinage of gold, probably because the seignorage on the coinage of gold was a source of revenue which the Government did not like to forego. But as gold was not legal tender, no gold was brought to the Mint for coinage, and the Government revenue from seignorage fell off. To avoid this loss of revenue, the Government began to take steps to encourage the coinage of gold. In the first place, it reduced the seignorage§ in 1837 from 2 per cent, to 1 per cent. But even this measure was not sufficient to induce people to bring gold to the Mint, and consequently the revenue from seignorage failed to increase. As a further step in the same direction, the Government issued a Proclamation on January 13, 1841, authorizing the officers in charge of public treasuries to receive the gold coins at the rate of 1 gold mohur equal to 15 silver rupees. For some time no gold was received, as at the rate prescribed by the Proclamation gold was undervalued.¶ But the Australian and Californian gold discoveries altered the situation entirely. The gold mohur, which was undervalued at

* Switzerland was the fifrst to reduce the amount of silver in her small coins in order to keep them in circulation. But these Swiss coins of reduced fineness crossed the national frontier and, as they were legal tender in other countries of Latin origin, began to displace their dearer coins of similar denominations, which contained more silver but which passed current at the same nominal value. This brought forth a decree in France (April 14, 1864) which revoked the legal tender power to a concerted action on the part of all the Latin countries concerned.

† For more particulars of the Latin Union, cf. Laughlin, op. cit, pp. 146-9.

‡Cf. H. of C Return, East Indian (Coinage) 254 of 1860.

§ *Ibid.* p. 8.

¶ *Ibid,* p. 10.

Rs. 15, became overvalued, and the Government which was at one time eager to receive gold, was alarmed at its influx. By adopting the course it did of declaring gold no longer legal tender, and yet undertaking to receive it in liquidation of Government 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. Realizing its position, it left aside all considerations of augmenting revenue by increased coinage, and promptly issued on December 25, 1852, another Proclamation withdrawing that of 1841. Whether it would not have been better to have escaped the embarrassment by making gold general legal tender than depriving it of its partial legal-tender power is another matter. But, in so far as India was saved the trials and tribulations undergone by the bimetallic countries to preserve the silver part of their currency, the abrogation of bimetallism was by no means a small advantage. For, the measure had the virtue of fore-arming the country against changes which, though not seen at the time, soon made themselves felt.

The abrogation of bimetallism in India, accomplished by the Act of 1835, cannot therefore be made a ground for censure. But it is open to argument that a condemnation of bimetallism is not *per se* a justification of silver monometallism. If it was to be monometallism it might well have been gold monomentallism. In fact, the preference for silver monometallism is not a little odd when it is recalled that Lord Liverpool, the advocate of monometallism,* whose doctrines the Court had sought to apply to India, had prescribed gold monometallism for similar currency evils then prevalent in England. That the Court should have deviated from their guide in this particular has naturally excited a great deal of hostile comment as to the propriety of this grave departure.† At the outset any appeal to ulterior motives must be baseless, for Lord Liverpool was not a "gold bug," nor was the Court composed of "silver men." As a matter of fact, neither of them at all considered the question from the standpoint as to which was a better standard of value, gold or silver. Indeed, in so far as that was at all a consideration worth attending to, the choice of the Court, according to the opinion of the time, was undoubetdly a better one than that of Lord

* The author of *A Treatise on the Coinage of the Realm* was anticipated by Sir John Shore, the Governor of Bengal, in his Minute, op. cit., par 55.

† Cf. H. M. Dunning, *Indian Currency,* 1898, *passim;* also S. V. Doraiswami, op. cit., *passim*.

Liverpool. Not only were all the theorists, such as Locke, Harris, and Petty, in favour of silver as the standard of value, but the practice of the whole world was also in favour of silver. No doubt, England had placed herself on a gold basis in 1816. But that Act, far from closing the English Mint to the free coinage of silver, left it to be opened by a Royal Proclamation.* The Proclamation, it is true, was never issued, but it is not to be supposed that therefore Englishmen of the time had regarded the question of the standard as a settled issue. The crisis of 1825 showed that the gold standard furnished too narrow a basis for the English currency system to work smoothly, and, in the expert opinion of the time,† the gold standard, far from being the cause of England's commercial superiority, was rather a hindrance to her prosperity, as it cut her off from the rest of the world, which was mostly on a silver basis. Even the British statesmen of the time had no decided preference for the gold standard. In 1826, Huskisson actually proposed that Government should issue silver certificates of full legal tender.‡ Even as late as 1844 the question of the standard was far from being settled, for we find Peel, in his Memorandum§ to the Cabinet, discussing the possibility of abandoning the gold standard in favour of the silver or a bimetallic standard without any compunction or predilection one way or the other. The difficulties of fiscal isolation were evidently not so insuperable as to compel a change of the standard, but they were great enough to force Peel to introduce his famous proviso embodying the Huskisson plan in part in the Bank Charter Act of 1844, permitting the issue of notes against silver to the extent of one-fourth of the total issues.¶ Indeed, so great was the universal faith in the stability of silver that Holland changed in 1847 from what was practically a gold monometallism§§ to silver monometallism because her statesmen believed that

> "it had proved disastrous to the commercial and industrial

* Cf. Dana Horton, *The Silver Pound,* 1887, p. 161.

† Cf. the evidence of A. Baring (afterwards Lord Ashuburton) before the Committee for Coin (1828), H. of C. Return 31 of 1830.

‡ *See* his Memorandum to the Cabinet printed by Gibbs, *A Colloquy on Currency* (1894), Appendix, p. xlvii.

§ For which, see Andreades, *History of the Bank of England,* Supplement I.

¶ For the original purpose of this defunct proviso, *see* Peel's Speech on the Bank Charter Act, dated May 20, 1844, Hansard, Vol. LXXIV, pp. 1334-35.

§§ In theory Holland had adopted bimetallism in 1816. But the legal ratio of 15.873 to 1 had undervalued silver so much that it had made gold the chief circulating medium of Holland.

> interests of Holland to have a monetary system identical with that of England, whose financial revulsions, after its adoption of the gold standard, had been more frequent and more severe than in any other country, and whose injurious effects were felt in Holland scarcely less than in England. They maintained that the adoption of the silver standard would prevent England from disturbing the internal trade of Holland by draining off its money during such revulsions, and would secure immunity from evils which did not originate in and for which Holland was not responsible."*

But stability was not the ground on which either the Court or Lord Liverpool made their choice of a standard metal to rest. If that had been the case, both probably would have selected silver. As it was, the difference in the choice of the two parties was only superficial. Indeed, the Court differed from Lord Liverpool, not because of any ulterior motives, but because they were both agreed on a fundamental proposition that not stability but popular preference should be the deciding factor in the choice of a standard metal. Their differences proceeded logically from the agreement. For, on analysing the compositon of the currency it was found that in England it was largely composed of gold and in India it was largely composed of silver. Granting their common premise, it is easy to account why gold was selected for England by Lord Liverpool and silver for India by the Court. Whether the actual composition of the currency is an evidence of popular preference cannot, of course, be so dogmatically asserted as was done by the Court and Lord Liverpool. So far as England is concerned, the interpretation of Lord Liverpool has been questioned by the great economist David Ricardo. In his *High Price of Bullion,* Ricardo wrote :—

> " For many reasons given by Lord Liverpool, it appears proved beyond dispute that gold coin has been for near a century the principal measure of value; but this is, I think, to be attributed to the inaccurate determination of the mint proportions. Gold has been valued too high ; no silver can therefore remain in circulation which is of its standard weight. If a new regulation

* *Report of the U. S. Silver Commission of* 1876, p. 68.

> were to take place, and silver be valued too high ..... gold would then disappear, and silver become the standard money."*

And it is possible that mint proportions rather than popular preference† could have equally well accounted for the preponderance of silver in India.‡

Whether any other criterion besides popular; preference could have led the Court to adopt gold monometallism is a moot question. Suffice it to say that the adoption of silver monometallism, though well supported at the time when the Act was passed, soon after proved to be a measure quite inadequate to the needs of the country. It is noteworthy that just about this time great changes were taking place in the economy of the Indian people. Such a one was a change from kind economy to cash economy. Among the chief causes contributory to this transformation the first place must be given to the British system of revenue and finance. Its effects in shifting Indian society on to a cash nexus have not been sufficiently realized,§ although they have been very real. Under the native rulers most payments were in kind. The standing military force kept and regularly paid by the Government was small. The bulk of the troops consisted of a kind of militia furnished by Jageerdars and other landlords, and the troops or retainers of these feudatories were in great measure maintained on the grain, forage, and other supplies furnished by the districts in which they were located. The hereditary revenue and police officers were generally paid by grants of land on tenure of service. Wages of farm servants and labourers were in their turn distributed in grain. Most of its officers being paid in kind, the State collected very little of its taxes in cash. The innnovations made by the British in this rude revenue and fiscal system were

* *Works,* p. 271.

† Mr. Dodwell, in his otherwise excellent article, op. cit., seems to convey that silver was substituted for gold in Southern India as a result of the natural preference of the people for the former metal. So eager is he in meeting the contentions of writers like Mr. Doraiswami that he fails to see how his own facts controvert his own thesis.

‡ The total coinage of India from 1800 to 1835 was, according to Mr. F. C. Harrison's estimate in the *Calcutta Review,* July, 1892:—

Gold	...	...	£ 3,845,000 ounces
Silver	...	...	£ 3,781,250,000 ounces

N.B.—In the case of silver, rupees are converted into ounces for comparison. § Cf. the article " The Silver Question as regards India," in the *Bombay Quarterly Review,* April, 1857.

of the most sweeping character. As territory after territory passed under the sway of the British, the first step taken was to substitute in place of the rural militia of the feudatories a regularly constituted and a well-disciplined standing army located at different military stations, paid in cash ; in civil employ, as in military, the former revenue and police officers with their followers, who paid themselves by perquisites and other indirect gains received in kind, were replaced by a host of revenue collectors and magistrates with their extensive staff, all paid in current coin. The payments to the army, police, and other officials were not the only payments which the British Government had placed on a money basis. Besides these charges, there were others which were quite unknown to the native Governments, such as the "Home Charges" and " Interest on Public Debt," all on a cash basis. The State, having undertaken to pay in cash, was compelled to realize all its taxes in cash, and as each citizen was bound to pay in cash, he in his turn stipulated to receive nothing but cash, so that the entire structure of the society underwent a complete transformation.

Another important change that took place in the economy of the Indian people about this time was the enormous increase of trade. For a considerable period, the British tariff policy and the navigation laws had put a virtual check on the expansion of Indian trade. England compelled India to receive her cotton and other manufactures at nearly nominal (2½ per cent.) duties, while at the same time she prohibited the entry of such Indian goods as competed with hers within her territories by prohibitory duties ranging from 50 to 500 per cent. Not only was no reciprocity shown by England to India, but she made a discrimination in favour of her colonies in the case of such goods as competed with theirs. A great agitation was carried on against this unfair treatment,* and finally Sir Robert Peel admitted Indian produce to the low duties levied by the reformed tariff of 1842. The repeal of the navigation laws gave further impetus to the expansion of Indian commerce. Along with this, the demand for Indian produce had also been growing. The Crimean War of 1854 cut off the Russian supplies, the place of which was taken

* Cf. Debates at the East India House on Duties affecting Indian Commerce, vide the *Asiatic Journal and Monthly Register for British and Foreign India, China, Australia* (London, New Series, Vol. XXXVII, January, and Vol. XXXVIII, May, 1842).

by Indian produce, and the failure of the silk crop in 1853 throughout Europe led to the demand for Asiatic, including Indian, silks.

The effect of these two changes on the currency situation is obvious. Both called forth an increased demand for cash. But cash was the one thing most difficult to obtain. India does not produce precious metals in any considerable quantity. She has had to depend upon her trade for obtaining them. Since the advent of the European Powers, however, the country was not able to draw enough for the precious metals. Owing to the prohibitions on the export of precious metals then prevalent in Europe,* one avenue for obtaining them was closed. But there was little chance of obtaining precious metals from Europe, even in the absence of such prohibition ; indeed, precious metals did not flow to India when such prohibitions were withdrawn.† The reason of the check to the inflow of precious metals was well pointed out by Mr. Petrie in his Minute of November, 1799, to the Madras Committee of Reform.‡ According to Mr. Petrie, the Europeans before they acquired their territorial possessions

> "purchased the manufactures of India with the metals of Europe : but they were henceforward to make these purchases with gold and silver of India, the revenues supplied the place of foreign bullion and paid the native the price of his industry with his own money. At first this revolution in the principles of commerce was but little felt, but when opulent and extensive dominions were acquired by the English, when the success of war and commercial rivalship had given them so decided a superiority over the other European nations as to engross the whole of the commerce of the East, when a revenue amounting to millions per annum was to be remitted to Europe in the manufactures of the East, then were the effects of this revolution severely felt in every part of India. Deprived of so copious a stream, the river rapidly retired from its banks and ceased to fertilize the adjacent fields with overflowing water."

The only way open, when the prohibitions were withdrawn

* For the History of those imposed by England, cf. Ruding, *Annals of Coinage,* 3rd. ed. Vol. I, pp. 353-4, 372, 376, 386-7 ; Thomas Violet, *An Appeal to Caesar,* London, 1660, p. 26.

† The following figures of the export of precious metals to India from England are interesting :—

1652-1703	...	£ 1,131,653 (from Mr. Petrie's Minute).
1747-1795	...	£ 1,519,654 " " "

‡ For the proceedings of the Committee, see India Office Records, "*Home Miscellaneous"* Series, Vol. 456.

to obtain precious metals, was to send more goods than this amount of tribute, so that the balance might bring them in. This became possible when Peel admitted Indian goods to low tariff, and the country was for the first time able to draw in a sufficient quantity of precious metals to sustain her growing needs. But this ease in the supply of precious metals to serve as currency was shortlived. The difficulties after 1850, however, were not due to any hindrance in the way of India's obtaining the precious metals. Far from being hindered, the export and import of precious metals was entirely free, and India's ability to procure them was equally great. Neither were the difficulties due to any want of precious metals ; for, as a matter of fact, the increase in the precious metals after 1850 was far from being small. The difficulty was of India's own making, and was due to her not having based her currency on that precious metal, which it was easy to obtain. The Act of 1835 had placed India on an exclusive silver basis. But, unfortunately, it so happened that after 1850, though the total production of the precious metals had increased that of silver had not kept pace with the needs of the world, a greater part of which was then on a silver basis, so that as a result of her currency law India found herself in an embarrasing position of an expanding trade with a contracting currency, as is shown in the Table IV on page 364.

On the face of it, it seems that there need have been no monetary stringency. The import of silver was large, and so was the coinage of it. Why then should there have been any stringency at all ? The answer to this question is not far to seek. If the amount of silver coined had been retained in circulation it is possible that the stringency could not have arisen. India has long been notoriously the sink of the precious metals. But in interpreting this phenomenon, it is necessary to bear in mind the caution given by Mr. Cassels that

> "its silver coinage has not only had to satisfy the requirements of commerce as the medium of exchange, but it has to suply a sufficiency of material to the silversmith and the jeweller. The Mint has been pitted against the smelting-pot, and the coin produced by so much patience and skill by the one has been rapidly reduced into bangles by the other."*

* Minute on Gold Currency for India, dated December 8, 1863, in the *Report of the Bombay Chamber of Commerce,* 1863-64. App. I, p. 189.

TABLE IV*

Trade and Currency

Years	Merchandise.		Treasure. Net Imports of		Total Coinage of		Excess (+) or Defect (—) of Coinage on Net Imports of		Annual Production (in £, 00,000 omitted) of	
	Imports. £	Exports. £	Silver. £	Gold. £	Silver. £	Gold. £	Silver. £	Gold. £	Gold.	Silver.
1850-51	11,558,789	18,164,150	2,117,225	1,153,294	3,557,906	123,717	+ 1,440,681	-1,029,577	8,9	7,8
1851-52	12,240,490	19,879,406	2,865,357	1,267,613	5,170,014	62,553	+ 2,304,657	-1,205,060	13,5	8,0
1852-53	10,070,863	20,464,633	3,605,024	1,172,301	5,902,648	Nil	+ 2,297,624	-1,172,301	36,6	8,1
1853-54	11,122,659	19,295,139	2,305,744	1,061,443	5,888,217	145,679	+ 3,582,473	- 915,764	31,1	8,1
1854-55	12,742,671	18,927,222	29,600	731,490	1,890,055	2,676	+ 1,860,455	- 728,814	25,5	8,1
1855-56	13,943,494	23,038,259	8,194,375	2,506,245	7,322,871	167,863	+ 871,504	-2,338,382	27,0	8,1
1856-57	14,194,587	25,338,451	11,073,247	2,091,214	11,220,014	128,302	+ 146,767	-1,962,912	29,5	8,2
1857-58	15,277,629	27,456,036	12,218,948	2,783,073	12,655,308	43,783	+ 436,360	-2,739,290	26,7	8,1
1858-59	21,728,579	29,862,871	7,728,342	4,426,453	6,641,548	132,273	-1,086,794	-4,294,180	24,9	8,1
1859-60	24,265,140	27,960,203	11,147,563	4,284,234	10,753,068	64,307	- 394,495	-4,219,927	25,0	8,2

* Prepared from figures given in Report Palgrave's "Memorandum on Currency and Standard of Value," Appendix B to Third Report of the *Royal Commission on Depression of Trade and Industry*. C4797 of 1886. Figures for the production of gold and silver, which are for calander years, are added from the "Silver Question and the Gold Question," by R. Barclay.