

Now it will be seen from the figures given that all the import of silver was coined and used up for currency purposes. Very little or nothing was left over for the industrial and social consumption of the people. That being the case, it is obvious that a large part of the coined silver must have been abstracted from monetary to non-monetary purposes. The hidden source of this monetary stringency thus becomes evident. To men of the time it was as clear as daylight that it was the rate of absorption of *currency* from monetary to non-monetary purposes that was responsible as to why (to quote from the same authority)

“notwithstanding such large importations the demand for money has so far exceeded.....that serious embarrassment has ensued and business has almost come to a stand from the scarcity of circulating medium. As fast as rupees have been coined they have been taken into the interior and have there disappeared from circulation, either in the Indian substitute for stocking-foot or in the smelting-pot into bangles.”*

The one way open was to have caused such additional imports of silver as would have sufficed both for the monetary as well as the non-monetary needs of the country. But the imports of silver were probably already at their highest. For, as was argued by Mr. Cassels,

“the annual production of silver of the whole world does not exceed ten million sterling. During the last few years, therefore, India alone has annually taken, and to a great extent absorbed, more of the metal than has been produced by the whole world. It is clear that this cannot long continue without producing serious embarrassment. Either the European markets will be unable or unwilling to supply us, or the value of silver will rise to an extravagant extent. Under such circumstances it is not difficult to foresee that the present crisis must continually recur, and the commerce in this country must be periodically, if not permanently, crippled by the scarcity of the circulating medium.”†

Had there been any credit media the contraction of currency

* Minute on Gold Currency for India, dated December 1, 1863. Report, op. cit. p. 184.

† Report, op. cit. p. 189.

might not have been felt as severely as it was. But there was no credit money worth the name. The Government issued interest-bearing Treasury notes, which formed a part of the circulating medium of the country. But, apart from being insignificant in amount,* these Treasury notes had

“proved a failure, owing, firstly, to the condition that they would not be received in payment of revenue for twelve months; secondly, they would be paid off or received only where issued, so that as the issues were confined to Calcutta, Madras and Bombay, their use and employment for purposes of circulation were limited to those cities and lastly, because their amounts were too large and their period of running at interest too short.”†

Nor was banking so widely developed as to satisfy the currency needs of commerce. The chief hindrance to its growth was the attitude of the Court. Being itself a commercial body largely dealing in exchange, the Court was averse to the development of banking institutions lest they should prove rivals. As this traditional policy of hostility continued even after the Court had ceased to be a body of merchant princes, banks did not grow with the growth of trade. Indeed, as late as 1856 banks in India numbered few and their issues were small, as shown in the table on page 367. (Table V)

The insufficiency of silver and the want of credit currency caused such an embarrassment to trade that there grew up a change in the attitude toward the Currency Act of 1835, and people for once, began to ask whether, although it was well to have changed from bimetallism to monometallism, it would not have been better to have preferred gold monometallism to silver monometallism. As more and more of gold was imported and coined, the stronger grew the demand for giving it a legal

* Amount of Indian Treasury notes outstanding :—

On April 30, 1850	£804,988	} Extracted from Table No. 2 of the Return relating to East India Revenues, etc., Parliamentary paper 201, VIII, 1858.
On April 30, 1851	802,036	
On April 30, 1852	770,301	
On April 30, 1853	850,432	
On April 30, 1854	850,627	
On April 30, 1855	889,875	
On April 30, 1856	967,711	

† *How to meet the Financial Difficulties of India*, by A. C. B., London, 1859, p. 13. This is in many ways a most remarkable pamphlet, which suggested many of the later reforms in Indian currency and banking.

TABLE V
BANKS IN INDIA *

Name of the Bank.	Year of Estab- lishment.	Head Offices.	Branches and Agencies.	Capital.		Notes in Circulation. £	Specie in Coffers. £	Bills under Discount. £
				Subscribed. £	Paid up. £			
Bank of Bengal	1809	Calcutta		1,070,000	1,070,000	1,714,771	851,964	125,251
Bank of Madras	1843	Madras		300,000	300,000	123,719	139,960	59,871
Bank of Bombay	1840	Bombay		522,000	522,000	571,089	240,073	195,836
Oriental Bank.	1851			1,215,000	1,215,000	199,279	1,146,529	2,918,399
Agra and U.P.	1833	Calcutta	{ Agra, Madras, Lahore, } Canton, and London	700,000	700,000	—	74,362	—
N.W. Bank	1844	"	{ Bombay, Simla, Mus- } sowri and Agra Ag- } encies in Delhi and } Cawnpore	220,560	220,000	—	—	—
London & East- } ern Bank	1854			250,000	—	325,000	—	—
Commercial Bank	1854	Bombay	{ Agents in London, } Calcutta, Canton, & } Shanghai	1,000,000	456,000	—	—	—
Delhi Bank	1844	Delhi	{ Agents in London, } Calcutta, Bombay, } and Madras	—	180,000	—	—	—
Simla Bank	1844			—	63,850	—	—	—
Dacca Bank	1846			30,000	—	—	—	—
Mercantile Bank		Bombay	{ London, Calcutta, Col- } ombo, Kandy, Can- } ton, and Shanghai	500,000	328,826	777,156	77,239	109,547
India, China and Australian Bank				} had not commenced business				

* R. M. Martin, *The Indian Empire*, Vol. 1, p. 665. N.B.—The table in original does not specify dates, but internal evidence shows that it is a about 1856.

status in the existing system of Indian currency.* All were agreed on the principle of a gold currency : whatever difference there was, was confined to the method of its adoption. The introduction of gold on a bimetallic basis was out of the question, for the Government refused to make what it deemed to be the “hopeless attempt” to fix the value of gold and silver and compel their acceptance at that value.† The projects which the Government was willing to consider‡ were : (1) to introduce the “sovereign” or some other gold coin and to let it circulate at its market price from day to day as measured in silver; (2) to issue a new gold coin, bearing the exact value of a given number of rupees, and make it a legal tender for a limited period, when it might be readjusted and again valued, and made a legal tender for a similar period at the new rate ; (3) to introduce the English sovereign as a legal tender for Rs. 10, but limited in legal tender to the amount of Rs. 20 or two sovereigns ; or (4) to substitute a gold standard for the silver standard.

Of these projects, the first three were evidently unsafe as currency expédients. Fixity of value between the various components of the currency is an essential requisite in a well-regulated monetary system. Each coin must define a fixed value, in terms of the others realizable by the most untutored intellect. When it ceases to do so, it becomes a mere commodity, the value of which fluctuates with the fluctuations of the market. This criterion ruled out the first two projects. To have introduced a coin as money, the value of which could not be vouched for—as would have been the case under the first project—from one day to another, apart from the trouble of computing and ascertaining the fluctuations, would have been a source of such embarrassment that the Government, it must be said, acted wisely in not adopting it. There was no saving grace in the second project to recommend its adoption in preference to the first. If it had been adopted the result would have been that during the period when a rate remained fixed, gold would have

* The matter was first broached by the native shroffs and merchants of Calcutta in April. 1859, in a letter to the President of the Bengal Chamber of Commerce. Both agreed to urge upon the Government the necessity of a gold currency in India. Cf. *Papers relating to the Introduction of a Gold Currency in India*, Calcutta, 1866, pp. 1-3.

† *Ibid.*, p. 6.

‡ Cf. Minute by the Rt. Hon. James Wilson, dated December 25, 1859, *Ibid.*, p. 23.

been forced into circulation supposing that its market value was lower, and at the end of the year, if it was known that the rate would be revised and the value of the coin be reduced in conformity with the fall of gold, a general struggle to get rid of the overrated gold coin and shift the inevitable loss to the shoulders of others would have certainly ensued. The third was a somewhat strange proposal. It is possible with a low-priced metal to strike coins of less than full value for the purposes of small payments and limit their tender. But this is not possible with a high-priced metal, the *raison d'être* of which is to facilitate large transactions. The objections to the plan could hardly be concealed. So long as gold was undervalued, it would not circulate at all. But once it became overvalued owing to changes in the market ratio, the rupee would go out of circulation, and shopkeepers and traders would remain possessed of a coin which would be of no use in liquidating large transactions.

The only project free from these faults was the adoption of a gold standard, with silver as a subsidiary currency. The strongest argument, the Government could advance against this demand was that "in a country where all obligations have been contracted to be paid in silver, to make a law by which they could forcibly be paid in anything else would simply be to defraud the creditor for the advantage of the debtor, and to break public faith."* However sound the argument might have been, it was hopelessly inadequate to meet the growing demand to place the Indian *currency on* an expanding basis. Indeed, it cannot be said that the Government was really serious in its opposition to a gold currency. For the strength of its position, it relied not so much on the soundness of its arguments against gold, but on its discovery that a better solution than a gold currency existed at hand. If what was wanted was a supplement to the existing currency, then the remedy proposed by the Government was unassailable. Gold would have been uneconomical and inconvenient. Silver backed by paper would make the currency economical, convenient, and expansive. Indeed, the advantages were so much in favour of the official alternative that this first attempt against the silver standard resulted not in the establishment of a gold standard, but in the introduction of a Government paper currency to supplement the existing silver standard.

* *Ibid*, p. 26.

None the less, the desire for a gold standard on the part of the people was too great to be altogether ignored, though the demand for it was supposed to have been met by the alternative measure. The paper currency, as originally conceived by Mr. Wilson, was a complete counterblast to the gold agitation. But his successor, Mr. Laing, differed from him in what he regarded as the “barbarous” exclusion of gold from Indian currency. He therefore introduced two important provisos in the original Bill, when the task of carrying it through fell upon him, owing to the untimely death of Mr. Wilson. One was to raise the lowest denomination of notes from Rs. 5 to Rs. 20. The other was

“to authorize the Governor-General in Council from time to time to direct by order to be published in the Gazettes of Calcutta, Madras and Bombay, that notes to an extent not exceeding one-fourth of the total amount of issues represented by coin and bullion be issued in exchange for gold coin..... or bullion computed at rates to be fixed by such order

The Act, which afterwards embodied the Bill, adopted the second proviso *in toto*, and the first after being modified so as to fix Rs. 10 as the lowest denomination of notes to be issued. Although its general tenor is clear, the immediate aim of the second proviso does not become quite clear from a perusal of the official papers. The Select Committee on the Paper Currency Bill seem to have held that the proviso was innocuous, if not good. It thought

“that on special occasions and in particular transactions it might be a great advantage to the mercantile community to know that gold could be made available as money at a fixed rate. If, on the other hand, at the rate fixed gold did not enter into circulation it would prove that silver, with a secure and convertible paper currency, gave perfect confidence and answered all the wants of the trade and of the community, and the enactment would remain a dead letter and be perfectly harmless.”

But there is no doubt that Mr. Laing looked upon it as an easy means of making a transition to the gold standard. In his Minute on Currency and Banking, dated May 7, 1862, he wrote :

“The object of this proviso was simply to leave the door

open for cautious and tentative experiments with regard to the future use of gold. The importation of gold already exists and is increasing, and the metal is much appreciated by the native population as generally to command a premium Thus, after a time, if the use of gold becomes more general, and its value more fixed, some further step might be taken.”

And such seems to have been the impression of the Secretary of State at the time, for he understood the force of the recommendation in favour of issuing notes against gold was that it would “effectively contribute to the introduction of a gold currency in India.”*

But whether conceived as a relief to the mercantile community or as an avenue for introducing a gold currency the proviso was not put into effect. The Secretary of State objected† to any action being taken with regard thereto. In the meantime the paper currency did not prove the panacea, it was avowed to be. The extent it reached and the economy it effected were comparatively insignificant.

TABLE VI
EXTENT AND ECONOMY OF PAPER CURRENCY

Presidencies	Bullion	Coin	Government Securities	Value of Notes in Circulation
Calcutta on Oct. 31, 1863		1,84,55,922	1,10,44,078	2,95,00,000
Madras on Oct. 31, 1863		73,00,000		73,00,000
Bombay on Jan. 4, 1864	1,17,00,000	1,19,00,000		2,36,00,000
Total	1,17,00,000	3,76,55,922	1,10,44,078	6,04,00,000

As was pointed out by Mr. Cassels‡ the currency notes, after three years, had been taken only to the extent of about 6 per cent, of the whole metallic currency, which was then estimated by Mr. Wilson to be £ 100,000,000 in sterling, and that they had actually fulfilled their primary object of releasing the

* Par. 59 of the Secretary of State's Despatch, No. 158, dated September 16, 1862.

† See par. 64 of his Despatch, *supra*.

‡ Cf. his letter to the Government of Bombay, dated January 1, 1864. Vide Papers, etc., on the Introduction of Gold in India, pp. 51-69

reproductive capital of the country only to the extent of a million sterling or 1 per cent, of the whole. Owing to the demand for Indian cotton in the Liverpool market to take the place of American cotton, the export of which was stopped during the Civil War, the growing foreign trade assumed enormous proportions. And as the paper currency gave no relief, the entire stress fell upon silver. The production of silver, however, was not increasing much faster than it did previously, and its absorption by India had not slackened. The inadequacy of a currency medium therefore continued to be felt as acutely as before, notwithstanding the introduction of a paper currency. Not only was gold imported in large quantities, but was employed for monetary purposes, although it was not legal tender. The fact was brought to the notice of the government of India by the Bombay Chamber of Commerce* in a memorial praying for the introduction of a gold currency in India, in which it was pointed out

“that there is an increasing tendency to the creation of a gold ingot currency, but the natives of this country, as a rude remedy for the defects of the existing silver one,”

and

“that gold bars, stamped with the mark of Bombay banks, are for this purpose circulated in several parts of the country.”

This led to an agitation for requiring the Government to give effect to the proviso in the Paper Currency Act,† and the movement assumed such dimensions that it forced the hands of the Government. On this occasion, the plan for effecting the change was boldly conceived. Sir Charles Trevelyan saw through the weak point of the proviso on which the Government was called upon to act. He argued that the currency notes were payable only in the current coin of the country, which in India was the silver rupee, and to hold a portion of the reserve gold which could not be tendered in payment of the notes was seriously to endanger their convertibility in times of political

* *Report of the Bombay Chamber of Commerce*, 1863-64, App. I, p. 206.

† This time the Government was memorialized by all the Chambers of Commerce— Bengal, Bombay, and Madras. Action was also urged by the Bombay Association and the Manchester Chamber of Commerce. But the movement derived its greatest strength from the support of the Government of Bombay, particularly by Sir William Mansfield's famous Minute on Gold Currency for India.

TABLE VII*
TRADE AND CURRENCY

Years.	Merchandise.		Treasure.		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.
1860–61	23,493,716	32,970,605	5,328,009	4,232,569	5,297,150	65,038	—	30,859	—	4,167,531
1861–62	22,320,432	36,317,042	9,086,456	5,184,425	7,470,030	58,667	—	1,616,426	—	5,125,758
1862–63	22,632,384	47,859,645	12,550,155	6,848,156	9,355,405	130,666	—	3,194,750	—	6,717,490
1863–64	27,145,590	65,625,449	12,796,717	8,898,306	11,556,720	54,354	—	1,239,997	—	8,843,952
1864–65	28,150,923	68,027,016	10,078,798	9,839,964	10,911,322	95,672	+	832,524	—	9,744,292
1865–66	29,599,228	65,491,123	18,668,673	5,724,476	14,639,353	17,665	—	4,029,320	—	5,706,811
1866–67	29,038,715	41,859,994	6,963,073	3,842,328	6,183,113	27,725	—	779,960	—	3,814,603
1867–68	35,705,783	50,874,056	5,593,961	4,609,466	4,385,080	21,534	—	1,208,881	—	4,587,932
1868–69	35,990,142	53,062,165	8,601,022	5,159,352	4,269,305	25,156	—	4,331,717	—	5,134,196
1869–70	32,927,520	52,471,376	7,320,337	5,592,016	7,510,480	78,510	+	190,143	—	5,513,506

*Sources same as those used in the case of Table IV.

distrust or commercial panic.* He therefore ventured beyond the scope of the agitation, and pronounced that instead of allowing gold a backdoor entry into the currency system it ought to be made the standard of value in India. He did not agree with Mr. Wilson that the substitution of gold for the silver standard would be "to break faith with the creditor." Nor was he much deterred by the fact that before the silver currency could be reduced to a subsidiary position, the introduction of gold in India would give rise to a double standard for the time being; for he argued that "all nations must pass through a transition stage of a double standard before they arrive at a single standard." Accordingly he proposed that (1) sovereigns and half-sovereigns of British or Australian standard should be legal tender in India, at the rate of one sovereign for Rs. 10, and that (2) Government currency notes should be exchangeable either for rupees or sovereigns at the rate of one sovereign for Rs. 10, but that they should not be exchangeable for bullion.

His proposals were accepted by the Government of India and were communicated to the Secretary of State† for his sanction. But the Secretary of State, impatient and intolerant of any deviation from a monometallic system, whittled down the whole project with scant courtesy. His reply‡ is a grotesque piece of reasoning and terribly shallow. He was unwilling to allow the measure, because he felt satisfied that the rate of Rs. 10 to a sovereign underrated the sovereign too much to permit its circulation. Here he was on solid ground. The cost of producing a sovereign at a Mint in India was estimated§ at the time to be Rs. 10-4-8; while the cost of importing it to Calcutta from England was estimated at Rs. 10-4-10, and from Australia at Rs. 10-2-9. Whichever was the proper rate, it was certain that sovereigns could not circulate at the rate of Rs. 10 to 1. It was

* Cf. his Minute dated June, 20, 1864. *Vide* Papers, etc., on Gold in India p. 147 *et seq.* He was even opposed to holding silver *bullion* in the paper currency reserve, for this involved on the Currency Department the obligation to get the silver coined, which was a matter of time, having regard to the limited capacity of the Indian Mints at the time, while the notes issued were payable *in coin on demand*. There was a run on the Paper Currency Department, which found itself short of coin.

† Cf. Government of India's Despatch No. 89, dated Simla, July 14, 1864.

‡ Financial Despatch from the Secretary of State, No. 224, dated Setpember 26, 1864.

§ Cf. Letter from the Hon. Claud Brown to the Hon. Sir C. E. Trevelyan, dated Calcutta, May 28, 1864. *Vide* Papers, etc., on Gold, p. 265.

a pity that Sir Charles Trevelyan did not propose a higher ratio* so as to make the circulation of the sovereign an assured event. But the Secretary of State would have been averse to the measure just the same, even if the ratio had been favourable to the sovereign. To the Secretary of State, the measure, based as it was on an unfavourable ratio, was useless. But if based on a favourable ratio it was none the less pernicious, for, it portended the possibility of what he considered as the most vicious system of double standard, however temporary it might have been. The mere contingency of giving rise to a bimetallic system was enough to frighten the Secretary of State into opposition to the whole measure, for he refused to admit that "it may be for the public advantage to pass through a period of double standard in order to change the basis of the currency from silver to gold."

The only concession that the Secretary of State was willing to make was to permit "that gold coin should be received into public treasuries at a rate to be fixed by Government and publicly announced by Proclamation" without making it a general legal tender in India. It will be recalled that this was a revival of that foolish measure which was abandoned in 1852 for having embarrassed the Government. To offer to receive coin which you cannot pay back is to court trouble, and it was to obviate the too-well-known danger inherent in the project that this more complete measure was proposed. But the currency stringency was so great that the Government of India, rather than obstinately cling to their view, consented to avail themselves of the suggestion of the Secretary of State, and issued a Government Notification in November, 1864, which proclaimed that

"sovereign and half-sovereigns coined at any authorized Royal Mint in England or Australia of current weight, shall until further notice be received in all the Treasuries of British India and its dependencies in payment of sums due to Government, as the equivalent of 10 and 5 Rs. respectively ; and that such sovereigns and half-sovereigns shall, whenever available at any Government Treasury, be paid at the same rates to any person willing to receive them in payment of claims against the Government."

* The reason why he preferred the ratio of 10 to 1 was that that was the prevalent market ratio in India. His argument was that "the sovereign must be rated for circulation in India, not with reference to its English, but to its Indian price estimated in silver." Probably he was unwilling to overrate the sovereign because of his fear that "the existing Indian currency would be rapidly revolutionized and creditors would receive much less than their due." Cf. his Minute dated November 23, 1864 *Vide* Papers, etc. on Gold in India.

The real par, however, was somewhat above Rs. 10 to the sovereign,* and the notification was therefore inoperative. The currency situation, on the other hand, continued to be as acute as ever, and the Government of India was again moved in 1866 by the Bengal Chamber of Commerce to take steps to make the circulation of gold effective. This time the Chamber insisted on the institution of a Commission of Inquiry “as to the expediency of introducing gold into the monetary system of India.” But the Government of India held† that “instead of a gold a paper currency has been introduced, in the expectation that it would prove a more convenient and acceptable circulating medium than either of the precious metals,” and consequently “it must be shown that paper has not proved and is not likely to prove a circulating medium adequate to the wants and suitable to the habits of the country, before an endeavour is made to introduce gold in supersession of, or in addition to, paper.” A commission was therefore appointed to inquire into the “operation of the existing currency arrangements which were established under Act XIX of 1861,” and to report as to “what may be the advantage, as based on expediency, of the introduction of the legal tender of gold into India, in addition to that of silver.” After an exhaustive investigation, the Commission came to the conclusion‡ that owing to several causes the paper currency had failed to establish itself among the circulating media of the country, but that gold was finding a larger place in the transactions of the people. The Commission ended by urging upon the Government “to cause a legal tender of gold to be a part of the currency arrangements of India.” Now it was the turn of the Government to give effect to the recommendation. But, curiously enough, it did not go to the extent of adopting the recommendation of the Commission which it had itself appointed. Instead of making gold legal tender, as advised by the Commission, the only action the Government took was to issue another Notification on October 28, 1868, which simply altered the rate of the sovereign to Rs. 10-8, without doing anything further to avoid the evil consequence attendant upon that one-sided measure. Fortunately for the Government, even this correction of the rate did not induce any flow of gold into

* Cf. Appendix A to the Minute by Sir William Mansfield on Gold Currency for India, H. of C. Return 79 of 1865.

† Resolution in the Financial Department, dated February 3, 1866, in the *Fort William Gazette* of the same date, under Notification No. 592.

‡ For the Report; of the Commission, see H. of C. Return 148 of 1868.

the circulation of the country. The currency troubles had by then subsided, and as no new pressure was exerted upon the Government, this proved the last of two abortive attempts the Government made to introduce gold into India.

For the time being, the problem was solved by the natural course of events. But, as subsequent events showed, the change to a gold standard would have been better for India.* and would have been welcomed† in the interests of Europe, which was then suffering from high prices due to the superfluity of gold. At this particular juncture, the Government of India was really at the crossing of ways, and could have averted the misfortunes that were to befall it and its people if it had sided with the forces of change and replaced the silver standard by a gold standard, as it could most easily have done. That those in charge of Indian affairs should have thrown the weight of their authority against the change was no dishonest act deserving of reproach, ‡ but it does furnish one more illustration of those disastrous human ways, which often lead people to regard the situation in which they live as most secure, just when it is most precarious. So secure did they feel about the currency situation that in 1870, when the Mint Law came to be revised and consolidated, they were content, as though nothing had happened or was likely to happen, to allow the silver standard of 1835 to continue pure and unsullied by any admixture of gold.§

Alas ! those, who then said¶ that they were not called upon to take more than a “juridical” view of the Indian currency question, knew very little what was in store for them.

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* It is true Prof. J. E. Cairnes was against the introduction of a gold standard in India ; but later he withdrew his objections. Cf. his *Essays in Political Economy* (London, 1873, pp. 88-90).

†Cf. J. R. McCulloch, *Dictionary of Commerce*, Ed. 1869, p. 1131.

‡ Mr. H. B. Russell says that they retained the silver standard because they profited by it on their remittances. Cf. his *International Monetary Conferences*, 1898, p. 32.

§The original Mint and Coinage Bill contained clauses embodying the notification of 1868, compelling the Government to receive sovereigns at Public Treasuries, Cf. *Gazette of India*, Part V, dated July 23, 1870. But such was the degree of indifference shown that they were afterwards dropped by the Select Committee, which preferred to leave the matter to the discretion of the Executive.

¶ Cf. the speech of the Hon. Mr. Stephen on September 6, 1870, introducing the Coinage and Mint Bill, Vide *Supreme Legislative Council Proceedings* (abbreviated into *S.L.C.P.*), Vol. IX, p. 398.

CHAPTER II

THE SILVER STANDARD AND THE DISLOCATION OF ITS PARITY

It is clear how the evolutionary process with respect to the Indian currency culminated in the establishment of a silver standard and how the agitation for a gold currency ended in the silver standard being supplemented by a paper currency. Before proceeding to inquire into the working of such a mixed system, it would be useful to review briefly the nature of its framework.

The metallic part of it was regulated by Act XXIII of 1870. The coins authorized and legalized thereunder were as shown on p. 379. (Table VIII)

The Act made no innovations either in regard to the number of coins issued by the Mints or their legal-tender powers. Identical though it was with the earlier enactments in the matter of coins,* its juridical provisions were designed to perfect the monetary law of the country as had never been done before. The former Acts which it repealed were very sparing in their recognition of the principle of mint “remedy” or “toleration”, as it is called. The point has been largely deemed to be one of mere mint technique. That is so; but it is not without its monetary significance. When the precious metals were current by weight the question of a mint toleration could not possibly have arisen, for it was open to every one to ascertain the same by weighing the value of his return. But since the invention of coinage, when currency came to be by tale, every one has trusted that the

* This may be seen from the following :—

(a) *Gold Coins*, (i), (ii), and (iii) were authorized by Section VII of Act XVII of 1835. Only (iv) was an addition made by this Consolidating Act of 1870.

(b) *Silver Coins*, (i), (ii), and (iii) were authorized by Section I of Act XVII of 1835. This Act had also authorized the issue of a silver coin called “Double Rupee,” but this was discontinued by Section II of Act XIII of 1862, which substituted in its place the silver coin No. iv.

(c) *Copper Coins*, (i), (ii), and (iv) were first authorized by Section I of Act XXI of 1835, which, however, restricted their circulation to the Presidency of Bengal. They were afterwards universalized for the whole of India by Act XXII of 1844. Coin No. (iii) was first introduced by Section II of Act XI of 1854.

TABLE VIII

Denomination of Coins issued by the Mint.	Gross Wt Troy Grs.	Remedy in Weight.	Fineness. Troy Grs.	Remedy in Fineness.	Legal-tender Power.
I. <i>Gold Coins (a)</i>					
(i) Mohur	180	$\frac{2}{1000}$ ths	165	$\frac{2}{1000}$ ths	Not Legal Tender at all.
(ii) Third of a Mohur	60	"	65	"	
(iii) Two-thirds of a Mohur	120	"	110	"	
(iv) Double Mohur	360	"	330	"	
II. <i>Silver Coins (b)</i>					
(i) Rupee	180	$\frac{5}{1000}$ ths	165	$\frac{2}{1000}$ ths	Unlimited Legal Tender.
(ii) Half-rupee	90	"	82.5	"	
(iii) Quarter-rupee	45	$\frac{7}{1000}$ ths	41.25	$\frac{3}{1000}$ ths	Legal Tender for Fractions of a Rupee only.
(iv) Eighth of a Rupee	22.5	$\frac{10}{1000}$ ths	20.625	"	
III. <i>Copper Coins (c)</i>					
(i) Pice	100	$\frac{1}{40}$ ths	—	—	Legal Tender for $\frac{1}{64}$ th part of a Rupee.
(ii) Double Pice	200	"	—	—	Legal Tender for $\frac{1}{32}$ th part of a Rupee.
(iii) Half-pice	50	"	—	—	Legal Tender for $\frac{1}{128}$ th Part of a Rupee.
(iv) Pie	33.3	"	—	—	Legal Tender for $\frac{1}{192}$ nd Par of a Rupee.

coins contained the value they were certified to contain. The actual value of the coin cannot, however, always be in exact agreement with its certified value. Such differences are bound to exist, and even with all the improvements in the art of coinage it would be difficult to avoid them. What matters is the extent of the deviation from the true mint standard. The mint laws of all countries, therefore contain provisions which declare that coins shall not be legal tender at their certified value if they err from their legal standard beyond a certain margin. Indeed to make coins legal tender without prescribing a limit to their toleration is to open a way to fraud. In so far as the Act laid down a limit of toleration to the coins it authorized to be issued from the Mint, it was a salutary measure. It is to be regretted, however, that the Act instituted no machinery with which to ascertain that the coinage conformed to the law.* Another important improvement made by the Act was the recognition of the principle of free coinage. The principle, though it has not received the attention it deserves, is the very basis of a sound currency in that it has an important bearing on the cardinal question of the quantity of currency necessary for the transactions of the community. Two ways may be said to be open by which this quantity can be regulated. One way is to close the Mint and to leave it to the discretion of the Government to manipulate the currency to suit the needs. The other is to keep the Mint open and to leave it to the self-interest of individuals to determine the amount of currency they require. In the absence of unfailing tests to guide the exercise of discretion necessary in the case of closed Mints, the principle of open Mints has been agreed upon as the superior of the two plans. When every individual can obtain coin for bullion and convert coin into bullion, as would be the case under open Mints, the quantity is automatically regulated. If the increasing demands of commerce require a large amount of circulating medium, it is for the interest of the community to divert a larger quantity of its capital for this purpose ; if, on the contrary, the state of trade is such as to require less, a portion of the coin is

* This machinery is provided in England by what is known as the "Trial of the Pyx." For a history of this institution and the way it functions, cf. H. of C. Return 203 of 1866. During the time of the East India Company the maintenance of the standard purity of the Indian coins always formed a most anxious concern of the Court of Directors. The coins of Indian mintage were regularly required to be sent over to England, where they were tested at a special Trial of the Pyx and the verdict reported back for the future guidance of the Mint Masters in India. Cf. H. of C. Return 14 of 1849. since the winding-up of the Company there is no machinery to bring the Mint Masters to book.

withdrawn, and applied as any other commodity for purposes other than those of currency. Because the Act of 1870 expressly recognised the principle of open Mint, it is not to be supposed that the Mints were closed before that date. As a matter of fact they were open to the free coinage of both gold and silver, although the latter alone was legal tender. But, strange as it may seem, none of the earlier Acts contained a word as to the obligation of the Mint Master to coin *all* the metal presented to him—a condition which is of the essence of the open mint system. The provisions of the Act on this point are unmistakable. It required :—

“Section 19. Subject to the Mint-rules for the time being in force, the Mint Master shall receive all gold and silver bullion and coin brought to the Mint:

“ Provided that such bullion and coin be fit for coinage.

“Provided also that the quantity so bought at one time by one person is not less, in case of gold, than fifty tolas, and, in the case of silver, than one thousand tolas.

“ Section 20. A duty shall be levied at the rate of one rupee per cent, at the Mint on the produce of all gold bullion and on all gold coin brought for coinage to the mint in accordance with the said Mint-rules.

“Section 21. All silver bullion or coin brought for coinage to the Mint, in accordance with the said Mint-rules, shall be subject to a duty at the rate of 2 per cent, on the produce of such from the return to be made to the proprietor.

“Section 22. A charge of one-fourth per mille on gold bullion and coin, and of one per mille on silver bullion and coin, shall also be levied for melting or cutting such bullion and coin so as to render the same fit for receipt into the Mint.

Section 23. All gold and silver bullion and coin brought to the Mint for coinage, and which is inferior to the standard fineness prescribed by this Act, or which, from brittleness or other cause, is unfit for coinage, shall, in case it is refined, be subject, in addition to the duty and charge aforesaid, to such charge on account of the loss and expense of refining as the Governor-General in Council prescribes in this behalf.

“Section 24. The Mint Master, on the delivery of gold or silver bullion or coin into the Mint for coinage, shall grant to the proprietor a receipt which shall entitle him to a certificate from the Assay Master for the net produce of such bullion or coin payable at the General Treasury.

“Section 25. For all gold bullion and coin, in respect of which the Assay Master has granted a certificate, payment shall be made, as nearly as may be, in gold coins coined under this Act or Act No. XVII of 1835 ; and the balance (if any) due to the proprietor shall be paid in silver, or in silver and copper, coins, in British India.”

In the matter of paper currency the Government, it is to be noted, did not proceed upon the principle of freedom of issue, which then obtained in the country. There prevails the erroneous view that before the introduction of the Government paper currency the right of note issue was confined to the three Presidency banks of India. As a matter of fact there existed in India what is called the free banking system, in which every bank was at liberty to issue its notes. It is true that notes of the Presidency banks enjoyed a status slightly superior to that enjoyed by the notes of other banks in that they were received by the Government to some extent in payment of revenue*— a privilege for which the Presidency banks had to submit to a stringent legislative control on their business,† from which other banks whose issues were not so privileged were immune. But this disadvantage was not sufficient to discourage other banks from indulging in the right of issue which was left open to them by law. However, this freedom of issue does not seem to have

* Cf. F. C. Harrison, *Economic Journal*, 1891, Vol. I, p. 726.

†The reasons for such control are to be found in the peculiar relationship that subsisted between the Government and the Presidency banks. Prior to 1862, as a safeguard against their insolvency, “the Presidency Bank Charters restricted the kind of business in which they were to engage themselves. Put very briefly the principal restrictions imposed prohibited the banks from conducting foreign-exchange business, from borrowing or receiving deposits payable out of India, and from lending for a longer period than six months, or upon mortgage, or on the security of immovable property, or upon promissory notes bearing less than two independent names, or upon goods unless the goods or title to them were deposited with the banks as security. The Government held shares in the banks and appointed a part of the Directorate. In 1862, when the right of note issue was withdrawn, these statutory limitations on the business of the banks were greatly relaxed, though the Government power of control remained unchanged. But, the banks having in some cases abused their liberty, nearly all the old restrictions of the earlier period were reimposed in 1876 by the Presidency Banks Act, Government, however, abandoning direct interference in the management, ceasing to appoint official directors, and disposing of its shares in the banks. Some of these limitations have been incorporated in Act XLVII of 1920, which amalgamated the three Presidency banks into the Imperial Bank of India. Banks other than Presidency banks have been entirely immune from any legislative control whatsoever, except in so far as they are made amenable to the provisions of the Indian Companies Act. Cf. in this connection Minutes by Sir Henry Maine, No. 47, and the accompanying note by W. Stokes. The control of these banks is one of the important problems of banking legislation in India.

been exercised by any of the banks on any very large scale, not even by the Presidency Banks,* and was taken away from all in 1861,† when there was established a national issue for the whole of India entrusted to the management of a Government Department called the Department of Paper Currency. But if private interest was not allowed to play the same part in determining the quantity of paper currency as was the case with regard to metallic currency, neither was any discretion left to the Government Department in the regulation of the paper currency. The Department of Paper Currency had no more discretion in the matter of paper currency than the Mint Master had in the matter of metallic *currency*.

The Department's duty was confined by law‡ to the issue of notes in exchange for the amount thereof: (1) in current silver coin of the Government of India; (2) in standard silver bullion or foreign silver coin computed according to standard at the rate of 979 rupees per 1,000 tolas of standard silver fit for coinage ; (3) in other notes of the Government of India, payable to bearer on demand of other amounts issued within the same circle ; and (4) in gold coin of the Government of India, or for foreign gold coin or bullion, computed at such ratio and according to such rules and conditions as may be fixed by the Governor-General, provided that the notes issued against gold did not exceed one-fourth of the total amount of issues represented by coin and bullion. The whole of this amount was required by law to be retained as reserve for the payment of notes issued with the exception of a fixed amount which was invested in Government securities, the interest thereon being the only source of profit to the Government. The limit to the sum to be so invested was governed "by the lowest amount to be estimated to which

* It should however, be noted that in 1860 the circulation of notes of the three Presidency banks was larger than their current accounts, as is evident from the following :—

Name of the Bank	Accounts current	Notes in circulation
Bank of Bengal	£ 1,254,875	£ 1,283,946
Bank of Bombay	438,459	765,234
Bank of Madras	161,959	192,291

(Bankers' Magazine, April, 1893, p. 547)

† For a summary of the controversy re. Bank issue *v.* Government issue, see *Report of the Bombay Chamber of Commerce for 1859-60*, Appendix L, pp. 284-318.

‡ Sect. IV of Act XIX of 1861.

according to all reasonable experience, the paper currency might be expected to fall.”* Estimating on this basis, the limit to the investment portion was fixed at 4 crores in 1861,† at 6 crores in 1871‡ and at 8 crores in 1890.§ But notwithstanding the growing increase in the investment portion, never was the fiduciary issue based thereon so great¶ as to abrogate the essential principle of the Indian Paper Currency Law, the object of which was to so regulate the volume of paper currency that it should always preserve its value by contracting and expanding in the same manner and to the same extent as its metallic counterpart.

Such was the organisation of the mixed currency that existed in India before it underwent a profound change during the closing years of the nineteenth century. Though of a mixed character, the paper portion formed a comparatively small part of the total. The principal reasons why the paper currency did not assume a large proportion are to be found in the organization of the paper currency itself. §§ One such reason was that the lowest denomination of the notes was too large to displace the metallic currency. By the law of 1861 the denomination of notes ranged upwards from Rs. 10 as the lowest to Rs. 20, 50, 100, 500, and 1,000. In a country where the average range of

* Cf. Sir Richard Temple's speech introducing the Paper Currency Bill, dated March 25, 1870. *Supreme Legislative Council proceedings*, Vol. IX, pp. 151-52.

† Act XIX, Sec. X.

‡ Act III, Sec. 16.

§ Act XV, Sec. I.

¶ The following table shows the distribution of the paper currency reserve at three different periods :

Period	Note Circulation	Composition of the Reserve				Percentage of each Component of the Reserve to the Total Circulation		
		Silver	Gold	Securities	Total	Silver	Gold	Securities
1862-1871	7.63	4.80	0.03	2.80	7.63	63	...	37
1872-1881	11.82	5.98	...	5.84	11.82	51	...	49
1882-1891	15.74	9.64	...	6.10	15.74	61	...	39

§§ For a clear and concise sketch of the organization of the paper currency in India, see the Note of the Government of India in the Report of the U.S. Director, of the Mint, Washington, 1894, pp. 231-33.

transactions did not exceed R. 1 and were as low as 1 anna or even lower, it is impossible to expect that paper currency could, to any great extent, figure in the dealings of the people. Even Rs. 5 notes, the issue of which was first sanctioned in the year 1871,* were not low enough to penetrate into the economic life of the people. The other impediment to the increase of paper currency was the difficulty of encashing notes. One of the infelicitous incidents of the paper currency in India consisted in the fact that they were made legal tender everywhere within a circle, but encashable only at the office of issue. For such a peculiar organization of the paper currency in India, what was largely responsible was the prevalence of internal exchange† in the country. It raised a serious problem for the Government to cope with. If notes were to be made universally encashable it was feared that merchants, instead of using notes as currency, might use them as remittance on different centres to avoid internal exchange, and the Government be obliged to move funds between different centres to and fro, lest it should have to suspend cash payments. To undertake resource operations on such a vast scale between such distant centres when facilities for quick transport were so few, was obviously impossible,‡ and the Government therefore decided to curtail the encashment facilities of notes it issued. For the purposes of the paper currency, the Government divided the country into a number of circles of issue, and each currency circle was further subdivided into sub-circles,§ and the notes issued bore on their face the name of the circle or sub-circle

*Sec. 3 of Act III.

† It may be pointed out that although the Presidency banks had ceased to issue notes, yet under the agreements made with the Government in virtue of Act XXIV of 1861 the banks were employed by the Government "for superintending, managing and becoming agents for the issue, payment and exchange of promissory notes of the Government of India, and for carrying on the business of an agency of issue" on a remuneration of 3% per cent, per annum "on the daily average amount of Government currency notes outstanding and in circulation through the agency of the bank." In the conflict that ensued between the Government of India and the Secretary of State because it believed that it would help the extension and popularization of the notes as to the propriety of thus employing the banks, the former was in favour of the plan, while the latter disliked the arrangement because it seemed to him to compromise the principle of complete separation between the business of issue and the business of banking. Neither of the two, however, grasped the fact that the profit on remittances on different centres owing to the prevalence of internal exchange was so great that the commission allowed to the banks was an insufficient inducement to cause them to promote the circulation of notes by providing facilities at their branches for the free encashment of them. So high was the internal exchange, and so reluctant seemed the banks to popularize the notes, that Government finally discharged them from being their agents for paper currency from January 2, 1866. *See House of Commons Return, East Indian (Paper Money) 215 of 1862.*

‡ Cf. the speech of the Hon. Mr. Laing on the Paper Currency Bill dated February 16, 1861, *S.L.C.P.*, Vol. VII, pp. 73-74.

§ Each sub-circle had within it a number of agencies of issue; but the agencies were centres not of encashment but only of issue.

from which they originated. Notes issued from any agency of issue situated in the territory comprised within a circle of issue were not legal tender in the territory of any other currency circle, nor were they encashable outside their own circle. Nay more, the notes issued from sub-circles subject to the same chief circle were legal tender in one another's territory, but were not encashable except at their office of issue or at the issue office of their chief circle. The sub-circle notes could thus be cashed at two places, but the notes of the issue office of the chief circle, though legal tender in the entire territory covered by it, were encashable nowhere except at its own counter, not even at any of its own sub-circles.* This want of universal encashability, though it saved the Government from the possibility of embarrassment, proved so great a hindrance to the popularity of the notes that it may be doubted whether the paper currency could have made a progress greater than it did even if the lowest denomination of the notes had been lower than it actually was.

It must, however, be borne in mind that it was not the intention of the Indian Legislature to make the Indian currency as economical† as was desired by the Executive Government. The Legislature was no doubt appealed to by the original author of the paper *currency* to turn India into a new Peru, where as much currency could be had with as little cost‡ but the Legislature showed a rather prudent reserve on the matter of aiding the consummation of such a policy. As the centres of encashment were so few, and the area included within each so large as to separate the furthest point in a circle by a distance of about 700 miles from the centre of encashment of the circle, it viewed with dread the authorizing of notes of smaller denomination

* For the inconveniences of the "circle" system and the various measures contemplated by Government to facilitate the encashment of notes, see *Report of the Bombay Chamber of Commerce for 1868-69*, Appendix, pp. 309-16.

† Cf. the whole speech of the Hon. Mr. Sconce dated September 22, 1860, *S.L.C.P.*, Vol. p. 1143 *et seq.*

‡ Cf. the speech of Mr. Wilson, the originator of paper currency in India, dated March 3, 1860, where he says : " In short, to abstract so much coin from the mere mechanical purpose of the circulation, supplying its place with convertible paper, would be exactly the same in effect as if suddenly, in the centre of the Maidan, a rich silver mine had been discovered which produced silver at little or no cost." *Supreme Legislative Council Proceedings*, Vol. VI, p. 250.

which the poor could not refuse and yet could not cash.* Besides the hardship involved in the want of encashability in the notes, the Legislature feared they would prove a “fugitive treasure” in the hands of the Indian peasant. Not being able to preserve them from rain and ants, he might have had to pay a heavy discount to be rid of the notes he could have been forced to accept †. So opposed was the Legislature to the economizing clauses of the Paper Currency Bill as contrived to drive out metallic currency that it gave the Government an option to choose between legal-tender notes but of higher denomination and lower-denomination notes but of no legal-tender power. ‡ And as the Government chose to have legal-tender notes, the Legislature in its turn insisted on their being of higher denomination. At first it adhered to notes of Rs. 20 as the lowest denomination, though it later on yielded to bring it down to 10, which was the lowest limit it could tolerate in 1861. Not till ten years after that, did the legislature consent to the issue of Rs. 5 notes, and that, too, only when the Government had promised to give extra legal facilities for their encashment.§ On the whole, the desire of the Indian Legislature was to make the Indian currency safer, rather than economical, and such it undoubtedly was.

How did the currency system thus constituted work? Stability of value is one of the prime requisites of a good currency system. But if we judge the Indian currency from this point of view, we find that there existed such variations in its value that it is difficult to escape the conclusion that the system was a failure.

Taking the rate of discount as an evidence of the adequacy of currency for internal commerce, it was the opinion of such a high financial authority as Mr. Van Den Berg that the unexpected contortions and sudden transitions in the Indian money market were unparalleled in the annals of any other money market in any other part of the world¶. India is

*Cf. the speeches of the Hon. Mr. Forbes, dated July 13, 1861, *S.L.C.P.* 1154.

† Cf. the speech of the Hon. Mr. Forbes, dated July 13, 1861. *Supreme Legislative Council Proceedings*, Vol. VII, p. 768.

‡ Cf. speech of the Hon. Mr. Scone, September 22, 1880, *S.L.C.P.*, Vol. VI, p. 1151.

§ For such extra facilities, and measures adopted to materialize them, Cf. the interesting speech of the Hon. Sir Richard Temple on the Paper Currency Bill dated January 13, 1871, *S.L.C.P.*, Vol. X, pp. 22-25.

¶ *The Money Market and Paper Currency of British India*, Batavia, 1884, p. 3.

pre-eminently a country subject to seasonal swings.* Mid-summer is naturally a period of diminished activity, while autumn brings renewed vigour in all activities of social and economic life. Not production alone is affected by seasons. On the side of consumption, Indian social life is also subject to seasonal variations. There are marriage season, holiday seasons and holy seasons. Even distribution has assumed in India quite a seasonal character. The practice of paying rents, wages, dividends, and settling accounts at stated intervals has been gaining ground as a result of contact with Western economic organization. All these generate a kind of rhythm in the social demand for money, rising at certain periods of the year and falling at others. Having regard to the seasonal character of the economic and social life, the fluctuations caused by the discount rate soaring high during busy months when it should have been low enough to liquidate the transactions, and falling low during

* It should be noted that the slack and the busy seasons are not uniformly distributed over the whole surface of the country. The distribution is roughly as follows :—

Months	Eastern India		Western India Bombay and Karachi	Northern India		Southern India Madras
	Rangoon	Calcutta		Cawnpore	Lahore	
Busy	3 Months	4 Months	6 Months	6 Months	9 Months	6 Months
Slack	9 Months	8 Months	6 Months	6 Months	3 Months	3 Months
January	Busy	Slack	Busy	Slack	Busy	Slack
February	"	"	"	Busy	"	Busy
March	"	"	"	"	"	"
April	Slack	"	"	"	"	"
May	"	"	Slack	Slack	"	"
June	"	"	"	"	"	"
July	"	"	"	"	Slack	"
August	"	Busy	"	"	"	Slack
September	"	"	"	Busy	"	"
October	"	"	"	"	Busy	"
November	"	"	Busy	"	"	"
December	"	Slack	"	Slack	"	"
Busy	Jan. to March	Aug. to Nov.	Nov. to April	Feb. to April	April to June	Feb. to July
Slack	April to Dec.	Dec. to July	May to Oct.	May to Aug.	July to Sept.	April to Dec.
Busy	...	...	...	Sept. to Nov.	Octo. to March	...
Slack	...	...	...	Dec. to Jan.	...	...