

fallen more, i.e. the price he received for his product was smaller than the outlay he had incurred. It is not quite established whether silver had fallen in Europe before it had fallen in India.* But even if that were so the possibility of a penalty through the fall of exchange proves that the bounty, if there was any, was not a bounty on the export trade as such, but was an outcome of the disharmony between the general level of prices and the prices of particular goods and services within the country, and *would have existed* even if the country had no export trade.

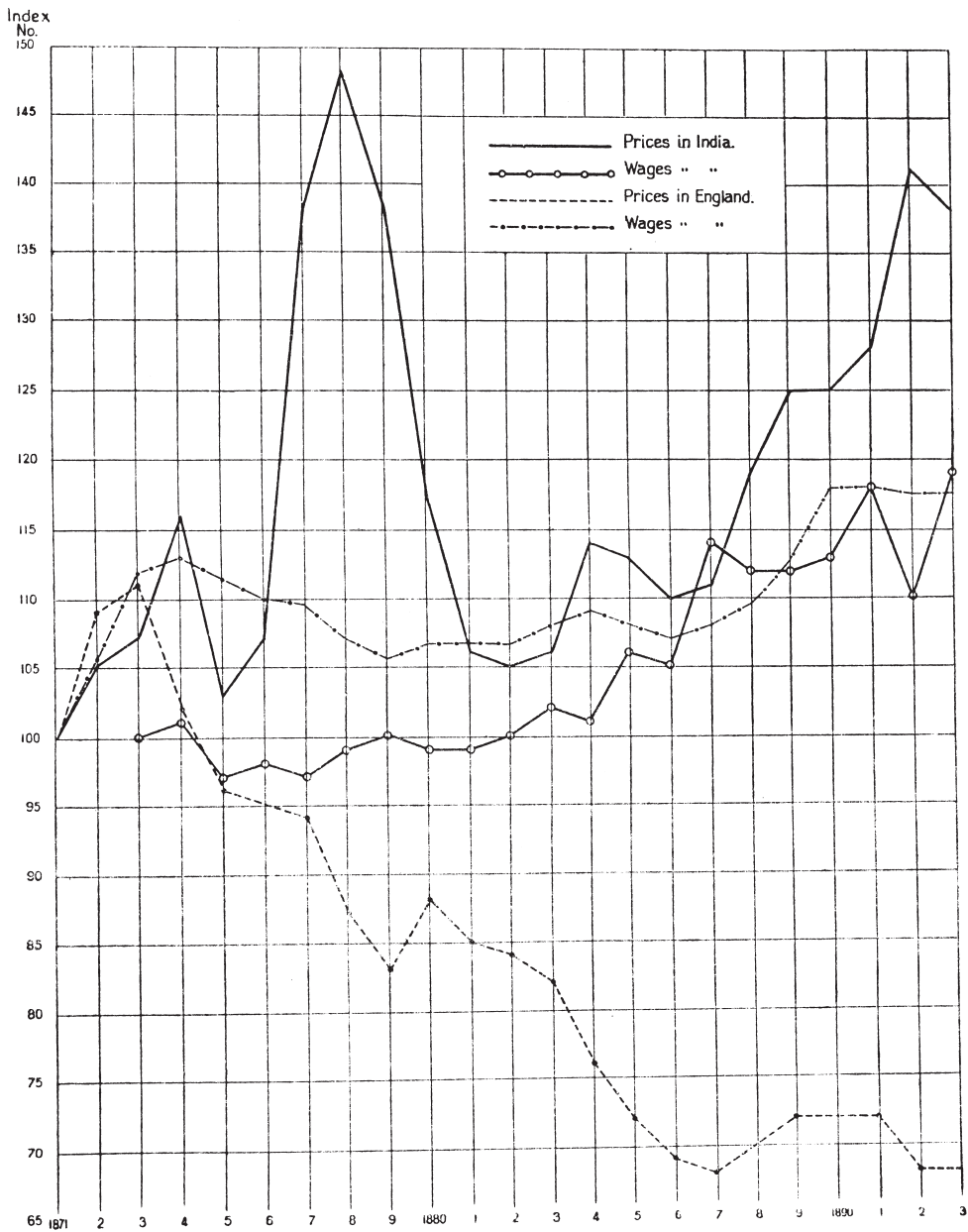
Thus the bounty was but an incident of the general depreciation of the currency. Its existence was felt because prices of *all* goods and services in India did not move in the same uniform manner. It is well known that at any one time prices of certain commodities will be rising, while the general price level is falling. On the other hand, certain goods will decline in price at the same time that the general price-level is rising. But such opposite movements are rare. What most often happens is that prices of some goods and services, though they move in the same direction, do not move at the same pace as the general price level. It is notorious that when general prices fall wages and other fixed incomes, which form the largest item in the total outlay of every employer, do not fall in the same proportion; and when general prices rise they do not rise as fast as general prices, but generally lag behind. And this was just what was happening in a silver-standard country like India and a gold-standard country like England during the period of 1873-93 (see Chart IV). Prices had fallen in England, but wages had not fallen to the same extent. Prices had risen in India, but wages had not risen to the same extent. The English manufacturer was penalized, if at all, not by any act on the part of his Indian rival, but by reason of the wages of the former's employees having remained the same, although the price of his products had fallen. The Indian producer got a bounty, if any, not because he had an English rival to feed upon, but because he did not have to pay higher wages, although the price of his product had risen.

The conclusion, therefore, is that the falling exchange could not have disturbed established trade relations or displaced the

* See *infra*. Chap. IV,

CHART IV

PRICES AND WAGES IN INDIA AND ENGLAND, 1873-93

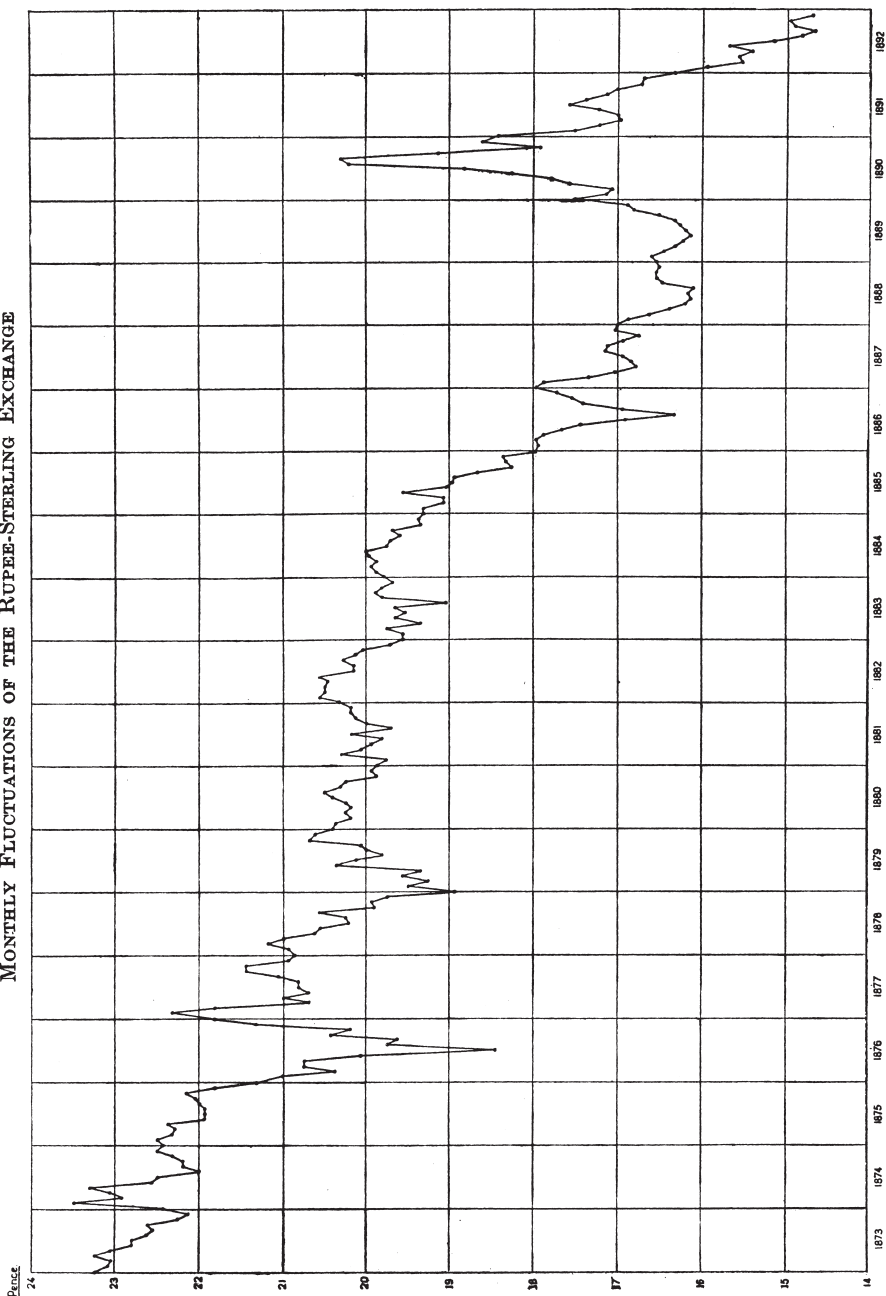


commodities that entered into international trade. The utmost that could be attributed to it is its incidence in economic incentive. But in so far as it supplied a motive force or took away the incentive, it did so by bringing about changes in the social distribution of wealth. In the case of England, where prices were falling, it was the employer who suffered; in the case of India, where prices were rising, it was the wage-earner who suffered. In both cases there was an injustice done to a part of the community and an easy case for the reform of currency was made out. The need for a currency reform was recognized in England; but in India many people seemed averse to it. To some the stability of the silver standard had made a powerful appeal, for they failed to find any evidence of Indian prices having risen above the level of 1873. To others the bounty of the falling exchange was too great a boon to be easily given away by stabilizing the exchange. The falsity of both the views is patent. Prices in India did rise and that, too, considerably. Bounty perhaps there was, but it was a penalty on the wage-earner. Thus viewed, the need for the reform of Indian currency was far more urgent than could have been said of the English currency. From a purely psychological point of view there is probably much to choose between rising prices and falling prices. But from the point of view of their incidence on the distribution of wealth, very little can be said in favour of a standard which changes in its value and which becomes the *via media* of transferring wealth from the relatively poor to the relatively rich. Scrope said: "Without stability of value money is a fraud." Surely, having regard to the magnitude of the interests affected, depreciated money must be regarded as a greater fraud. That being so, the prosperity of Indian trade and industry, far from being evidence of a sound currency, was sustained by reason of the fact that the currency was a diseased currency. The fall of exchange, in so far as it was a gain, registered a loss to a large section of the Indian people with fixed incomes who suffered from the instability of the silver standard equally with the Government and its European officers.

So much for the fall of silver. But the financial difficulties and social injustices it caused did not sum up the evil effects produced by it. Far more disturbing than the fall were the fluctuations which accompanied the fall (*see* Chart V).

The fluctuations greatly aggravated the embarrassment of the Government of India caused by the fall in the exchange value

CHART V
MONTHLY FLUCTUATIONS OF THE RUPEE-STERLING EXCHANGE



of the rupee. In the opinion of the Hon. Mr. Baring (afterwards Lord Cromer),*

“It is not the fact that the value of the rupee is, comparatively speaking, low that causes inconvenience. It would be possible, although it might be exceedingly troublesome, to adjust the Indian fiscal system to a rupee of any value. What causes inconvenience alike to Government and to trade is that the value of the rupee is unstable. It is impossible to state accurately in Indian currency what the annual liabilities of the Government of India are. These liabilities have to be calculated afresh every year according to the variations which take place in the relative value of gold and silver, and a calculation which will hold good for even one year is exceedingly difficult to make.”

Owing to such fluctuations, no rate could be assumed in the Budget which was likely to turn out to be the true market rate. As matters stood, the rate realized on an average during a particular year differed so widely from the Budget rate that the finances of the Government became, to employ the phraseology of a finance minister, a “veritable gamble.” How greatly the annual Budget must have been deranged by the sudden and unprovided-for changes in the rupee cost of the sterling payments Table XXII on page 442 may help to give some idea.

If Government finance was subjected to such uncertainties as a result of exchange fluctuations, private trade also became more or less a matter of speculation. Fluctuations in exchange are, of course, a common incident of international trade. But if they are not to produce discontinuity in trade and industry there must be definite limits to such fluctuations. If the limits are ascertainable, trade would be reasonably certain in its calculation, and speculation in exchange would be limited within the known limits of deviations from an established par. Where, on the other hand, the limits are unknown, all calculations of trade are frustrated and speculation in exchange takes the place of legitimate trading. Now, it is obvious that fluctuations in the exchange between two countries will be limited in extent if the two countries have the same standard of value. Where there is no such common standard of value the limits, though they

* *Financial Statement*, 1883-84, p. 26.

TABLE XXII
FLUCTUATIONS OF EXCHANGE AND FLUCTUATIONS IN THE RUPEE COST OF GOLD PAYMENTS*

Financial Year.	Estimated Rate of Exchange on which the Budget of the Year was framed.		Rate of Exchange actually realized on the Average during the Year.		Changes in the Rupee Cost of Sterling Payments consequent upon Changes between the Estimated and the Realized Rates of Exchange.	
					Increase.	Decrease.
	s.	d.	s.	d.	Rs.	Rs.
1874-75	1	10.375	1	10.156	15,91,764	—
1875-76	1	9.875	1	9.626	19,57,917	—
1876-77	1	8.5	1	8.508	—	76,736
1877-78	1	9.23	1	8.791	38,43,050	—
1878-79	1	8.4	1	7.794	56,87,129	—
1879-80	1	7	1	7.961	—	84,40,737
1880-81	1	8	1	7.956	4,24,722	—
1881-82	1	8	1	7.895	10,17,482	—
1882-83	1	8	1	7.525	37,46,890	—
1883-84	1	7.5	1	7.536	—	3,62,902
1884-85	1	7.5	1	7.308	18,97,307	—
1885-86	1	7	1	6.254	56,82,638	—
1886-87	1	6	1	5.441	65,17,721	—
1887-88	1	5.5	1	4.898	71,90,097	—
1888-89	1	4.9	1	4.379	77,98,400	—
1889-90	1	4.38	1	4.566	—	27,31,892
1890-91	1	4.552	1	6.09	—	2,35,51,744
1891-92	1	5.25	1	4.733	80,09,366	—

* Compiled from figures given in the *Final Report of the Gold and Silver Commission*, p. 40, and in App. II, p. 270, to the *Report of the Indian Currency Committee*, 1893.

exist, are too indefinite to be of much practical use. The rupture of the fixed par of exchange, having destroyed a common standard of value between gold and silver countries, removed the limits on the exchange fluctuations between such countries. As a result of such variations in the value of the standard measure, trade advanced by "rushes and pauses," and speculation became feverishly active.*

That progress of trade depends on stability is a truism which seldom comes home until it is denied in fact. It is difficult to appreciate its importance to healthy enterprise when government is stable, credit is secure, and conditions are uniform. And yet so great is the handicap of instability that everywhere business men have been led by a variety of devices to produce stability in domains enveloped by uncertainty. Everywhere there have grown up business barometers forewarning business men of impending changes and so enabling them to forearm against them by timely changes in their operations. The whole of insurance business is aimed at giving stability to economic life. The necessity which compelled all regularly established Governments to maintain standard measures by which the true proportion between things as to their quantities might be ascertained and dealings in them regulated with certainty was motivated by the same purpose. The meticulous precision with which every civilised country defines its standard measures, and the large machinery it maintains to preserve them from deviation, are only evidences of the great importance that an economic society must continue to attach to the matter of providing precision of expression and assurance of fulfilment with regard to the contracts entered into by its members in their individual or corporate capacities.

Important as are the standard measures of a community, its measures of a community, its measure of value is by far the most important of them all.† The measures of weight, extension, or volume enter only into particular transactions. If the pound, the bushel, or the yard were altered the evils would be comparatively restricted in scope. But the measure of value is all-prevading.

* Evid. Indian Currency Committee, 1898, Q. 6,290, 9,808-10.

† Cf. Harris, *An Essay upon Money and Coins* (reprinted by J. R. McCulloch in his volume of *Scarce Tracts on Money*, Part I, Chap. II, par. 21 ; Part II, Chap. II, pars. 11, 13, and 20).

“There is no contract,” Peel declared.* “public or private, no engagement national or individual, which is unaffected by it. The enterprises of commerce, the profits of trade, the arrangements made in all domestic relations of society, the wages, of labour, pecuniary transactions of the highest amount and of the lowest, the payment of national debt, the provision for national expenditure, the command which the coin of the smallest denomination has over the necessities of life, are all affected”

by changes in the measure of value. This is because every contract, though ultimately a contract in goods, is primarily a contract in value. It is, therefore, not enough to maintain constancy in the measures of weight, capacity, or volume. A contract as one of goods may remain exact to the measure stipulated, but may nevertheless be vitiated as a contract in values by reason of changes in the measure of values. The necessity of preserving stability in its measure of value falls on the shoulders of every Government of an orderly society. But its importance grows beyond disputes as society advances from status to contract. The conservation of the contractual basis of society then becomes tantamount to the conservation of an invariable measure of value.

The work of reconstituting a common measure of value in some form or other, which those misguided legislators of the seventies helped to destroy, it was found, could not be long delayed with impunity. The consequences that followed in the wake of that legislation, as recounted before, were too severe to allow the situation to remain unrectified. That efforts for reconstruction should have been launched before much mischief was done only shows that a world linked by ties of trade will insist, if it can, that its currency systems must be laid on a common gauge.

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* Cf. his speech dated May 6, 1844, delivered during the Commons debates on the Bank Charter Act. Hansard, Vol. XXXIV, p. 720.

CHAPTER IV

TOWARDS A GOLD STANDARD

The establishment of stable monetary conditions was naturally enough dependent upon the restoration of a common standard of value. Plain as was the aim, its accomplishment was by no means an easy matter. Two ways seemed at first to be open for carrying it out in practice. One was to adopt a common metal as currency, and since all important countries of the world had gone over to the gold standard it meant the silver-standard countries should abandon their standard in favour of gold. The other was to let the gold and silver standard countries keep to their currencies and to establish between them a fixed ratio of exchange so as to make the two metals into a common standard of value.

The history of the agitation for the reform of the Indian currency is a history of these two movements. The movement for the introduction of a gold standard was, however, the first to occupy the field. The failure of the notification of 1868 may be said to have marked the failure of a policy, but the movement for a gold currency in India started in the sixties was not altogether stamped out of the country. That the movement still had life in it is shown by the fact that it was revived four years later by Sir R. Temple, when he became the Finance Minister of India, in a memorandum* dated May 15, 1872. The important particular in which he differed from his predecessors consisted in the fact that while they all aimed to make the British sovereign the principal unit of the gold currency in India, he desired to give that place to the Indian gold coin, the "mohur." Why his predecessors did not do the same when the problem of correctly rating the sovereign was said to have baffled them so much is a little surprising when it is recalled that the Indian Mints had been since long past issuing the "mohur", which, as it was possible to rate it correctly, could as well have been made the principal unit of the gold currency in India. That they did not

* Printed as Appendix I, No. 12, to the *Report of the Indian Currency Committee* of 1898.

can only be explained on the assumption that they were anxious to kill two birds with one stone. The adoption of the sovereign, besides supporting a gold currency in India, was also calculated to promote the movement of international uniformity of coinage then in vogue. The utility of the “mohur” was in this respect comparatively inferior to that of the sovereign. But when Sir Richard Temple came upon the scene the prospect of some universal coin being internationally adopted seemed to be fast vanishing. At all events the Report of the English Commission on International Coinage, presided over by Lord Halifax, had pronounced adversely as to any change in the standard of the English sovereign. Untrammelled by any considerations for such a wider issue, Sir R. Temple was free to recommend the adoption of the “mohur” as the unit of currency in place of the sovereign.*

“We have,” he wrote, “gold pieces representing fifteen, ten and five rupees respectively; and believed to represent these several sums very correctly, as regards the relative value of gold and silver that we should take the first opportunity to declare the gold coins legal tender to unlimited amount; that gold pieces should continue to bear the fixed relation to the rupee; that for a time it might be necessary to permit the rupee to remain legal tender to an unlimited amount, which would involve temporarily the difficulty of a double standard; that the transition period of double standard should be as short as possible, silver being reduced to a token coinage, and being made legal tender up to a small amount only; and that gold should be ultimately the one legal standard.”

He proposed the ratio of 10 rupees for 120 grs. of standard i.e. 110 grs. of fine gold.† but he did not share the temerity of Sir Charles Trevelyan.‡ So intent was he on the project of a gold currency that he was prepared to alter the ratio so as to make it favourable to gold. The question of ratio, he observed, was one which

“the Government of India ought to be able to determine.

“Nevertheless, he said,” I would not object to make the sovereign a legal tender for 10 rupees and 4 annas. But, the sovereign being worth 10 rupees and a fraction over, there might be some slight trouble of calculation in changing it for silver, and this would be a drawback in respect of the use of the sovereign as currency in India. And if this objection were urged, I would not press for the sovereign being declared legal tender. But we should continue, under any circumstances, to receive the sovereign in our Treasuries at the present rating.”

† This was a ratio of 15 : 1, which was a slight undervaluation of gold.

‡ *Supra*, Chap. I.

These are questions which have been determined by every nation that has adopted a gold currency. No doubt it is a difficult and important problem, but it cannot be insoluble, and it ought to be solved."

Such in outline was the first proposal for a gold currency. It was projected before the fall in the value of silver had commenced, and was therefore more a culmination of the past policy than a remedy against the ensuing depreciation of silver. In that consisted, probably, the chief strength of the proposal. It was in good time to avoid the cost of hauling up the currency which later on proved so very deterrent and caused the defeat of so many other projects. Besides, it cannot be said that at the time the memorandum was presented the Government was not warned of the impending crisis; for the wave of demonetizing silver had already commenced two years before.* But, for some reason not known to the public, no action was taken on the proposal.

The second plan for the introduction of a gold currency was that of Colonel J. T. Smith, the able Mint Master of India. His plan was avowedly a remedy for the falling exchange.† The plan was set forth in the first essay in the brochure, *Silver and the Indian Exchanges*,‡ and may be described in his own words as follows:—

"6. Although it cannot be denied that the difficulty of effecting this object of restoring the Indian exchange to its normal condition is much greater now than it would have been some years ago, owing to the decline which has already taken place, yet there seems to be sufficient ground for belief that, even now, if decided measures were adopted, it would not be too late to restore the currency to its former value for home (India)) payments; and that, too, without any shock or disturbance; the principal step being that of putting a stop to the coinage of silver on private account, at the

* Lord Northbrook, who was the Viceroy of India when this proposal was made, in his evidence before the I.C.C of 1898, Q. 8,447, suggested that the reason for his not adopting it then was that "that was a time when gold was appreciating, and it was impossible to do." This is, of course, historically untrue except on the hypothesis that the proposal came for consideration long after it was submitted.

† Ho had previously taken part in the agitation for the introduction of a gold standard in India during the sixties with the sovereign as the unit. But that was as an advocate of the movement for uniformity of international coinage. Cf. his *Remarks on a Gold Currency for India and Proposal of Measures for the Introduction of the British Sovereign*, etc., etc. London, 1868.

‡ London, Effingham Wilson, 1876.

same time taking measures to discourage the importation, or at the least the circulation, of foreign-made, silver coins, and opening the Mints for the receipt of gold bullion for coinage.

“ 7. To explain how this would operate, I must observe that

“8. ... the internal trade of the Empire of India has increased and is increasing.....

“9. Whatever may be the cause, the internal trade of India has, ever since the beginning of this century, required constant and steady additions to her currency, averaging during the last thirty-eight years upwards of five millions of pounds sterling per annum in value. Besides this, the returns show that the balance of imports over exports of gold bullion, during the same period, exceeded an average of two and a half millions sterling annually, having been, during the last twenty years, more than four millions per annum.

“10. Such being the case, it appears to be a necessary consequence that, if the supply of rupees were put a stop to, the remainder must increase in local value, as compared with commodities, till they resumed the position which they held on a par with gold, at the rate of 10 rupees to a sovereign, for the fifteen years previous to 1870.

“11. After that point had been attained, it would be the interest of merchants to take gold into the Indian Mints for coinage; and they would do so, indeed, before the attainment of this improvement of the exchanges, owing to the premium or ‘batta’ which would at first be obtained for the gold coins.

“12. By this means gold would gradually be brought into India; and, as it has been shown that an addition to the circulating medium of at least five million sterling per annum is necessary, and no more silver coins being admitted (into the currency), it will slowly accumulate there.....

“13. The proposal therefore is that, after due notice, the coinage of silver on behalf of private individuals and advances upon silver bullion should be suspended; that part of the Act 23 of 1870, which makes it incumbent on the Government to receive and coin it, being repealed; the Government retaining in their own hands the power of replenishing the silver currency whenever they may deem it expedient. That

gold bullion should be received by the Government at the mint rate of 38 rupees 14 annas per standard ounce, and coined into sovereigns and half-sovereigns (representing 38 rupees 15 annas), or ten or five rupee-pieces of the same value, which should be declared legal tender, but not demandable, the present silver rupees continuing to be legal tender, as before.*

At the time the Smith plan was presented, the fall of silver had made itself felt so that a considerable support in favour of the plan was forthcoming. The support of the trading community was embodied in the resolution, dated July 15, 1876, of the Bengal Chamber of Commerce, which urged "that it was expedient, in view of any ultimate measures that the Government may adopt, that Clause 19 of Act XXIII of 1870, making it obligatory on the Mints in India to receive all silver tendered for coinage, and also Section II, Clause (b) of Act III of 1871, making it obligatory on the Currency Department to issue notes against silver bullion sent in, be temporarily suspended, at the discretion of Government, and that during each such suspension or till further notice it be not lawful to import coined rupees from any foreign port." A similar feeling was voiced by the Calcutta Trades Association. By this time the fall of exchange had also commenced to tell upon the finances of the Government of India, so much so that Sir William Muir, in his Financial Statement for 1876-77, was led to observe :—

"The sudden depreciation of silver and the consequent enhancement of charge to the Government of India in laying down yearly the sum required in England of about fifteen millions sterling, without doubt cast a grave shadow on the future. In truth, it may be said that the danger, from whatever point of view considered, is the gravest which has yet threatened the finances of India. War, famine, and drought have often inflicted losses on the Exchequer far greater than the charge which threatens us in the present year. But such calamities pass away; the loss is limited; and when it has been provided for the finances are again on sure and stable ground. This is not the case with the present cause of anxiety. Its immediate effects are serious enough. But that which adds significance to it is that the end cannot be seen;

* This was calculated to make the rupee-sterling exchange 2 s. gold. The average rupee-sterling exchange in 1876 was about 1s. 9.645d. This would have placed a small premium on gold which would have no doubt soon disappeared owing to the appreciation of the rupee consequent upon the stoppage of its coinage.

the future is involved in uncertainty.’*

In the face of such a situation nothing would have been more natural than to expect the Government precipitating into some kind of action to save itself, if not others, from an impending calamity. Far from taking immediate steps, the Government not only failed to take any initiative, but showed, when pressed by the Bengal Chamber of Commerce to act upon the foregoing resolution, a surprising degree of academic somnolence only to be expected from an uninterested spectator. No doubt the proposal of the Bengal Chamber was defective in that it did not suggest the opening of the Indian Mints to the coinage of gold. The Government of India was sharp enough to fasten upon this defect. It made plain to the Chamber that if it had proposed the free coinage of gold.

“such a recommendation would not have been open to the objections that appear fatal, *in limine*, to the adoption of the resolution actually adopted..... viz. to close the Mints temporarily to the free coinage of the one metal into legal-tender money, without simultaneously opening them to the free coinage of the other into legal tender money.’

Did it, then, adopt the proposal of Colonel Smith, which contained such a recommendation? Not at all! Why did it not, then, adopt a remedy to which it saw no objections? The reason was that it had arrived at a different diagnosis of the causes of the monetary disturbances. To the Government the possibilities of explaining “the disturbance in the equilibrium of the precious metals” seemed to be many and varied.† (1) The value of gold being unchanged, the value of silver had fallen; (2) the value of silver being unchanged, the value of gold had risen; (3) the value of gold had risen, and the value of silver had fallen; (4) the value of both metals had risen, but the value of gold more than that of silver; (5) the value of both metals had fallen, but the value of silver more than that of gold. In the midst of such possibilities, marked, more by pedantry than logic, the Government warned the currency reformers that

“the character of the remedies indicated, if the disturbance is found to be due to a rise in the value of gold, will obviously

* P. 93.

† Cf. The Resolution of the Government of India relating to the Depreciation in the Value of Silver, dated September 22, 1876, par. 6, Commons Paper 449 of 1893.

differ from what would be suitable in the case of a fall in the value of silver.”*

Out of these possibilities what seemed to it to be proven was that “gold had risen in value since March, 1872,”† and therefore if any reform was to be effected it should fall upon the gold-standard countries to undertake it. Situated as the Government of India then was, it could have suffered itself without incurring much blame to be hurried into some kind of currency reform that promised to bring relief. To have refused to allow the exigencies of a crisis to rule its decisions on such a momentous issue as the reform of currency, need not imply a spirit of obstinacy. On the other hand, it bespeaks a spirit of caution which no reader of that illuminating despatch of October 13, 1876, conveying to the Secretary of State its decision to wait and watch, can fail to admire. But it is hardly possible to speak in a similar commendatory manner of the underlying attitude of the Government of India. Whether it is possible to hold that gold had appreciated but that silver had not depreciated may be left for logician to decide upon. But for a silver-standard country to refuse to undertake the reform of her currency system on the plea that it was gold that had appreciated was no doubt a tactical error. In military matters there is probably such a thing as depending on a position; but in currency matters there cannot be such a thing. The reason is that in the former strength sometimes lies in the weakness of the other. But in the case of the latter the weakness of one becomes the weakness of all. There can be no doubt, therefore, that the Government, in discarding its responsibility to do the needful in the matter, committed the same kind of mistake as a man who, in the words of Prof. Nicholson,‡ “should suppose that the ship cannot sink because there is no leak in the particular cabin in which he happens to sleep.”

That the attitude of inaction was unwise was soon brought home to the Government of India. Within a short space of two years it was obliged to reconsider the position taken in 1876. In a despatch dated November 9, 1878,§ the Government of India observed :—

“5. It was to have been expected that a subject so encompassed with difficulties should not receive any early

* Commons Paper 449 of 1893.

† *Ibid*, par. 16.

‡ *Money and Monetary Problems*, 1895., p. 90.

§ P. P., C. 4868. of 1886, p. 18.

settlement, and it was probably the wisest, as it was certainly the most natural course, to allow further time to elapse before attempting any final solution of the grave problem it involved. The improvement that took place in the value of silver in the year 1877 favoured this policy in action; and it is only now, when a fresh fall has brought down the rupee to a value hardly greater than that which it had in July, 1876, that the serious nature of the risk which our existing currency law entails on us is once more forced on our attention by its practical effects on the Home remittances.

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“21. The uncertainty that has now for some years prevailed with reference to the value of silver, and the consequent disturbances in the exchange, have..... been causes of continued financial difficulty to the Government..... and it is not possible to doubt that similar results must have been produced by these disturbances in the trade transactions of the country, or that investments of foreign capital in India, either for trading or other purposes, must have been very seriously interfered with by their influence.

“23. Such we hold to be a true statement of the present difficulties and prospective risks of maintaining the existing Currency Law, and we feel assured that they have not been in any way overstated. It remains for us to inquire whether any practical remedy could be devised that should not be open to serious objections, or the risks attending the adoption of which should not be so great as to prohibit it. We feel most fully the heavy responsibility that will rest on us in dealing with the currency of India ; but it is plain that the responsibility for doing nothing is no less great. Whether the law is left as it is, or whether it is changed, the result will be equally due to our action, and we cannot, if we would, avoid facing this grave question.

“24. To obtain fixity of exchange by the adoption of a gold standard, and the substitution of a gold for a silver currency through the direct action of Government, has, we think, been conclusively shown to be impracticable by the despatch of the Government of India of October last, and this plan therefore calls for no further notice. The increase in the weight

of the rupee, also noticed in that despatch, is equally undeserving of attention, as in fact, it would give no security for the future, and would entail a heavy charge without accomplishing the essential point to be aimed at. There remains the simpler, and first proposed suggestion, the limitation of the coinage of silver, which, though rejected in 1876 by the Government of India...; appears to us to call now for a closer examination.

“25. This suggestion in its main features is, that the Coinage Act shall be so far modified as to withdraw the free right of the public to take silver bullion to the Mint for coinage, and either to suspend it entirely in future, or limit it for a time.

“26. It is obviously an essential part of any such scheme, if it is to have the effect of fixing the exchange value of the rupee, that the power of obtaining that coin in future shall be regulated in some manner by a gold payment, and that the relation between sterling and rupee currency shall thus be fixed irrespective of the fluctuations in the relative value of the metals of which the coins are formed.

“27. It is not, on the other hand, an essential part of such a plan that any particular relation of value should be thus fixed at two shillings..... or at any smaller or larger proportion. All that is necessary is that the rate, being once fixed, shall remain for the future unchanged.

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“33. Probably the most important question is whether or not it is practicable to maintain a silver coinage as the principal element in our currency, with a very limited gold coinage, or without a legal-tender gold coinage at all. The Government of India, in its despatch of 1876, expressed an opinion adverse to the possibility of maintaining such a system..... On a full reconsideration of this point, we are led to take the opposite view, and to think that such a system would be perfectly practicable and would lead to no material difficulty. It is true that there is no country in which such a condition of things actually exists. But those countries, and there are many of them, in which an inconvertible paper currency exists or has existed, give proof that the far greater anomaly of a currency devoid of any intrinsic value whatever

is capable of performing the work of a metallic currency satisfactorily, and of maintaining its local exchange value, so long as an excessive issue is only guarded against.

* * * *

“37. (Such) instances (as the British shilling and the French five franc piece) seem to show that neither in the way of surreptitious coinage, nor of discredit from depreciation of intrinsic value, it is probable that there would be any serious difficulty in keeping the rupee in circulation at its present weight, at a nominal value of two shillings, with a gold standard and a partial gold coinage.

* * *

“46. We are thus led to the general conclusion that it will be practicable, without present injury to the community as a whole, or risk of future difficulties, to adopt a gold standard, while retaining the present silver currency of India, and that we may thereby in the future fully protect ourselves from the very real and serious dangers impending over us so long as the present system is maintained. We consequently desire to recommend to Her Majesty’s Government the adoption of such a change at the earliest moment possible, and we shall proceed to explain, in all necessary detail, the measures by which we advise that it should be effected.

* * *

“50. It has to be borne in mind that it is not the object of our action to force on India a gold currency, or to displace the silver currency, but rather to avoid such a result, or to check the tendency in that direction, so far as it can be done consistently with the adoption of the gold standard. We are consequently led to the conclusion that, while we give certain facilities for the introduction of gold coins into India, we should not yet go so far as to declare them a general legal tender; and that we should at the same time, make provision for the coining of silver, without limit as to quantity, but on terms that will give no advantage to the introduction of silver in relation to gold.

“51. These objects we propose to attain as follows:—We first take power to receive British or British Indian gold coin in payment for any demands of the Government, at rates to

be fixed from time to time by the Government, till the exchange has settled itself sufficiently to enable us to fix the rupee value in relation to the pound sterling, permanently at two shillings. Simultaneously with this, the seignorage on the coining of silver would be raised to such a rate as would virtually make the cost of a rupee, to persons importing bullion, equal in amount to the value given to the rupee in comparison with the gold coins above spoken of. We should thus obtain a self-acting system under which silver would be admitted for coinage, at the fixed gold rate, as the wants of the country required; while a certain limited scope would be given for the introduction and use of gold coin, so far as it was found convenient or profitable."

Such was the scheme outlined by the Government of India. The reason why it rejected the Smith plan, although it was simple, economical, and secure, was because it contemplated a demand by India on the world's dwindling stock of gold. Now, in the circumstances then existing, this was a fatal defect, and the powers-that-be had already decided that at all cost India must be kept out of what was called the "scramble for gold." Therefore, to have proposed an effective gold standard was to have courted defeat. A mild and diluted edition of a gold standard such as was proposed by the Government was all that stood any chance of success. But even this timid attempt did not fare well at the hands of the Committee* appointed jointly by the Secretary of State and the Chancellor of the Exchequer to examine and report upon the proposals. The members of the Committee were "unanimously of opinion that they cannot recommend them for the sanction of Her Majesty's Government."† The reasons which led to the rejection of the proposals we are not permitted to know. Although the Report of the Committee was made public, the proceedings have never seen the light of day. Indeed, there has been a most stern and obstinate refusal on the part of the officials to allow a peep into them. Why they should be regarded as confidential after a lapse of nearly half a century it is difficult to imagine. Enough, however, was revealed by Sir Robert Giffen, who was a member of this

* It was composed of Louis Mallet, Edward Stanhope, T. L. Seccombe, R. E. Welby, T. H. Farrer, R. Giffen, and A. J. Balfour.

† For Report of the Committee, see Commons Paper C 4868 of 1886, p. 26.

Committee, in evidence before the Indian Currency Committee of 1898* for us to know the contents of this closely guarded document. It seems that the Committee declared against the proposals because it thought they were calculated to make the Indian currency a “managed” currency. At the time when the Committee delivered its opinion the current prejudice was unanimously against such a system. All acknowledged writers on currency were pronounced opponents of an artificially regulated system.† A naturally automatic currency was their ideal. In addition to being misled by this prejudice, the Committee felt convinced that the situation would soon ease itself by the natural working of economic forces without necessitating a reform of the Indian currency. This conviction on the part of the Committee was founded on the high authority of the late Mr. Walter Bagehot‡ that the disturbance could not but be temporary. His argument was that the depreciation would encourage exports from India, and discourage imports, and the unfavourable balance of trade thus brought about would induce a flow of silver to India, tending to raise its price. He was also of opinion that increased demand for silver would also arise from outside India. He argued that the reduction of demand caused by the demonetization of silver by some countries would be more than compensated for by the adoption of silver by other countries then on a paper basis for their impending resumptions of specie payment.

Whatever might be said with regard to the Committee’s preference of a natural to an artificial system of currency, there can be no doubt that in turning down the proposals of the Government, in the hope that silver would recover, it was grossly deceived. The basic assumptions on which the Committee was led to act failed to come true. To the surprise of everybody India refused to absorb this “white dirt.” Indeed, it was one of the puzzles of the time to know why, if silver had fallen so much

* Q. 10,025-50

† So novel was the idea at the time that the United States Monetary Commission, 1876, was surprised when some of the witnesses expressed themselves in favour of regulating the principal metallic unit of account in the currency system of a country by Government agency. See 44 Congress 2nd Session Senate Document, No. 703 p. 47-48.

‡ Cf. his *some Articles on the Depreciation of Silver, and on Topics connected with it*, London, 1877; pp. 10, 55, and 80; also his evidence before the Select Committee on the Depreciation of Silver, Lords Paper 178 of 1876, Q. 1,361-1,450.

in Europe, it did not go to India in larger quantities. Many blamed the Secretary of State for the sale of his Council Bills.* These bills, it was said, presented an alternative mode of remittance so much better as to prevent the sending of silver to India, and thereby caused a diminution in the demand for it. That this was not a correct view is obvious.† Silver could not have gone to India more than it did even if Council Bills had been abolished. Council Bills must be regarded as ordinary trade bills drawn against services and commodities, and could not be said to have competed with the transmission of bullion in any special manner different to that attributable to the trade bills. The only bearing the Council Bills may be said to have had upon the issue in question lies in the fact that to the extent they figured in the transactions they prevented India from buying other commodities. But there was nothing to prevent her residual buying power left over after paying for the Council Bills from being utilized in the purchase of silver in preference to other commodities. That this buying power would be used in purchasing silver because it was depreciated in Europe was theoretically an unsound assumption on the part of Mr. Bagehot. The deciding factor which could have caused such a diversion of this residual buying power to the purchase of silver was whether it was *appreciated in India*. Only on that condition could there have been a flow of it to India. But as matters then stood, it was the opinion of Prof. Pierson‡ that when the general depreciation of silver commenced all over the world, it had been forestalled in that part of the globe in which India lies. India was already glutted with silver. Under ordinary circumstances India would have sent back a large portion of its silver to Europe. But the general depreciation prevented her from doing so; and now there were two opposing forces, one tending to produce an export of silver from India to Europe and the other tending to produce an export of silver from Europe to India; and, although the latter was the stronger of the two, the former was sufficiently powerful to prevent any considerable quantity of silver from being exported from Europe to India. If the Committee was deceived in one part of its assumptions, it was also disappointed

* This argument was prominently put forth in the *Report* (pp. xxx—xxxv) of the *Select Committee on the Depreciation of Silver*, 1876; and also by Monometallic Members of the Gold and Silver Commission, 1886, Cf. pp. 77-79 of the final Report, Part II.

† Cf. evidence of Professor Marshall before the Gold and Silver Commission, 1886, Q. 10,164-76.

‡ Cf. his reply to the Circular of the Gold and Silver Commission, 1886. Second Report, App. VII (1), p. 254.

in others. Far from resuming specie payments in terms of silver, as Mr. Bagehot expected the countries then on paper basis to do, they one and all demonetized silver to the great disappointment of all those who adhered to the policy of "wait and see."

The falsification by India and other countries of such anticipations led to a change in the angle of vision of most of the European countries who had theretofore shown no inclination to do anything by way of reducing the chaotic currencies to some kind of order. They were advised by eminent authorities not to hurry. Jevons said* :—

"We only need a little patience and a little common sense to surmount the practical difficulties. Within the next few years good harvests in India will, in all probability, enable that country to buy up all our surplus silver, as it has been in the habit of doing, with rare exceptions, since the time of Pliny..... In future years any amount of silver could be got rid of without loss, if it be sold gradually and cautiously."

When, however, it was found that the waiting period would be more painful if not longer than what it pleased the proverbial peasant to undergo, in order to let the stream run dry so as to permit of his forbidding it without wetting his feet, there grew up an agitation in Europe to undertake the necessary reform to prevent the depreciation of silver.

Far from being sentimental, the agitation was real and derived its force from the evils which arose out of the existing currency conditions. The monetary condition of most of these countries was very unhealthy. Their schemes of an effective gold standard with silver as token currency were arrested in the midst of their progress. Germany, when she demonetized silver, had retained her silver thalers as full legal tender at the old ratio with gold, only to get time to be rid of them to the extent necessary to reduce them to a truly subsidiary position. But, before she could do so, her policy of demonetization had commenced to tell upon the value of silver, and the continued fall thereof compelled Germany to retain the thalers as legal tender at their old value, despite the fact that their metallic value was fast sinking. Precisely the same was the result of the action of the Latin Union on their system of currency. They had stopped their further

* Op. cit., p. 354.

coinage of the silver five-franc pieces; but they could do nothing with those that were already coined except to permit them to circulate at the old mint par, although the metallic par continued to change with changes in the market values of gold and silver. The United States was also involved in similar evils, although they arose from choice rather than from necessity. Yielding to an agitation of the silver men, it passed in 1878 a law called the Bland Allison Act, requiring the Secretary of the Treasury to purchase and coin each month not less than \$2,000,000 and not more than \$4,000,000 worth of silver bullion into standard silver dollars, which were to be full legal tender for all debts public and private," except where otherwise expressly stipulated in the contract,"* As the metallic value of these dollars fell with every fall, while their legal value remained as before, they became, like the thalers and the francs, overvalued coins. It is clear† that when the stock of a country's currency is not equally good for all purposes it is relatively speaking in an unsatisfactory condition. Though good for internal purposes, these coins were useless for international payments. Besides making the whole currency system unstable and top-heavy, they could not be made to serve the purpose of banking reserves, which it is the *prime* function of a metallic currency to perform in modern times. The possibilities they opened for illicit coinage were immense. But what made their existence such a source of menace was the fact that a large proportion of the total metallic money of these countries was of this sort. The figures given by Ottomar Haupt in Table XXIII (*see* p. 461) prove sufficiently the difficulties that these countries had to face in regulating and controlling such a mass of token currency.

If a gold-standard country like England had escaped these difficulties it was only to meet others equally embarrassing. As has been pointed out before, the continued fall of prices, the reflex part of the appreciation of gold, had produced a depression in the trade and industry of the country never known before in its history. Apart from this, the monetary disturbances affected the yield on capital investment, the mainstay of so many of her people, by reducing the field for its employment. Said the American Commission :—

* *Report of the Monetary Commission of the Indianapolis Convention*, Chicago, 1898, pp. 138-45.

† Cf. the speech of Prof. Pierson, Delegate of the Netherlands at the International Monetary Conference of 1881, *Report of the Delegates of the United States*, Cincinnati, 1881, pp. 77-84.

“Within twenty years from 1877 to 1897, it could probably be correctly stated that the power of money to earn dividends was reduced to one-half, or in nearly that proportion. That reduction of the earning power of capital affected injuriously everybody who depended upon investments for a living. It affected also the profits and enterprises of the captains of industry and the kings of finance. In England and in France the price of Government securities rose to a point which made it no longer possible for the man of small means to invest in them and acquire an adequate support during his declining years.”*

It is, of course, open to doubt whether the conclusion drawn is the right one. But the fact remains that owing to monetary disturbances the field for the investment of English capital had become considerably restricted. And, as a way of getting a living, capital investment was an important resource to the English people.

To mend such a situation there were convened one after another three International Monetary Conferences to establish a bimetallic par between gold and silver. The first International Monetary Conference was convened at Paris in the year 1878 at the invitation of the United States. The second met at the same place in 1881 at the joint call of France and the United States. The third and the last assembled by the wish of United States in Brussels during the year 1892.

From the gravity of the situation nothing could have been more natural than to expect these Conferences to fructify into an agreement upon the consummation of the project for which they were called into being. But, far from reaching any agreement, the deliberations of these Conferences proved to be entirely futile. Only the second Conference showed any sign of agreement. The first and the third marked a strong deviation in the opposite direction. The advance, if any, that was made, as a result of these deliberations, was summed up in the pious opinion that it was necessary to retain and enlarge the monetary use of silver. But so weak on the whole was the response that practice failed to testify as to the sincerity of this solemn declaration.

* Report on the Introduction of the Gold-exchange Standard into China and other Silver-using Countries by the Commission on International Exchange. 58th Congress, 2nd Session, House of Representatives Document, No. 144, Washington, 1903, p. 101.