

TABLE XXIII
DISTRIBUTION OF THE STOCK OF MONEY IN DIFFERENT COUNTRIES *

Countries.	Monetary Circulation at the <i>Beginning</i> of 1892.				
	Gold.	Silver.	Uncovered Notes	Fractional Cur- rency.	Billon Money.
Austria . . fl.	65,000,000	197,000,00	601,000,000	40,000,000	14,000,000
England . . . £	118,000,000	—	10,000,000	26,000,000	1,900,000
France . . . fr.	3,900,000,000	3,200,000,000	572,000,000	280,000,000	280,000,000
Germany . . . m.	2,500,000,000	430,000,000	450,000,000	457,000,000	57,000,000
Holland . . . fl.	64,000,000	135,000,000	98,000,000	7,600,000	1,800,000
Italy . . . li.	485,000,000	81,000,000	847,000,000	150,000,000	75,000,000
Russia£	59,500,000	—	51,200,000	8,200,000	1,000,000
Spain pes.	160,000,000	646,000,000	548,000,000	190,000,000	157,000,000
U.S.A. . . . doll.	671,000,00.0	458,000,000	419,000,000	77,000,000	18,000,000

*The figures are as given by Ottomar Haupt (London: Effingham, Wilson & Co., 1892, p. 160.)

The reasons for the failure of these Conferences to reach a bimetallic agreement have not been properly understood. One cannot read the debates on bimetallism at these Conferences without observing that the opposing parties approached the subject with different objectives. To one the principal objective was the maintenance of a stable ratio of exchange between gold and silver irrespective of the question whether one or both remained in circulation; to the other it was the maintenance of the two metals in concurrent circulation. As a consequence of this difference in the lines of their approach an agreement on a bimetallic project became well-nigh impossible.

The workability of bimetallism in the sense of maintaining a stable ratio between gold and silver is necessarily an indefinite proposition. Nonetheless, it cannot be said, if the debates at these Conferences are taken as a guide, that the possibility of a successful bimetallic system in the stable-ratio sense of the term had been denied by the majority of economic theorists, or by the Governments who met at these Conferences. On the other hand, the Conference of 1881, the most important of the three, was remarkable for its confession regarding the workability of the system. All Governments, barring a few minor ones, were in favour of it. Even the British Government, in consenting to bring into operation the silver clause of the Bank Charter Act, must be said to have given its word of approval.

But what did bimetallism promise, as a piece of mechanism, to maintain the two metals in concurrent circulation? The bimetallists used to cite the example of France in support of the stability of the double standard. But was there a concurrent circulation of two metals in France under the bimetallic system? Far from it. For, although it was a virtue of the system that changes in the production of the two metals made no appreciable variations in the fixed ratio of exchange, yet the slightest of such as did occur were sufficient to effect the greatest revolution in the relative circulation of the two metals, as the following table clearly brings out:—

TABLE XXIV
MINTAGE OF GOLD AND SILVER IN FRANCE*

Period		Gold Million Francs	Silver Million Francs	Ratio of Value
1803 to 1820	...	868	1,091	1 : 15.58
1821 to 1847	...	301	2,778	1 : 15.80
1848 to 1852	...	448	543	1 : 15.67
1853 to 1856	...	1,795	102	1 : 15.35
1857 to 1866	...	3,516	55	1 : 15.33
1867 to 1873	...	876	587	1 : 15.62

* Table submitted to the Paris International Monetary Conference of 1881 by M. Pierson, Delegate for the Netherlands.

In mitigation of this, the bimetallists had nothing to offer. There were, no doubt, such schemes as the one proposed by Prof. Marshall, consisting of paper based on a linked bar of gold and silver in certain fixed proportions,* having the object of converting this “either-metallism” into double-metallism. But such schemes apart, the free-mintage-cum-fixed-ratio plan of bimetallism gave no guarantee against alternation in the circulation. Indeed, under that plan the alternation is the very soul of the mechanism which keeps the ratio from being disturbed. The only thing the bimetallists could say in mitigation of this was that† the alternation in currency would confine itself to bank reserves and would not be extended to the pockets of the people. This was only an eyewash,‡ for how could the banks arrange their reserves except in conformity with the prejudices of the people? Even international agreement to use gold and silver at a fixed ratio was no guarantee that this concurrent circulation would be maintained. Stability of ratio did depend to a large extent upon an international agreement, for, although it could be maintained by the action of one nation, the deviations of the ratio in that case would probably be greater. But mere international agreement has no virtue of itself to prevent one metal driving out the other. To suppose that Gresham’s Law is powerless under international agreement is a gross mistake. Gresham’s Law is governed by the relative production of the two metals to the total currency needs of the movement. Supposing the production of one metal relatively to the other was so enormous as to more than suffice for the currency needs, how could international agreement prevent the former from driving the latter entirely out of circulation? On the other hand, international agreement, far from discouraging, would encourage the process.

In adopting bimetallism, therefore, the nations had to make a choice between a stable ratio and a concurrent circulation, for there might arise a situation in which there was a stable ratio

* Cf. *Contemporary Review* for March, 1887. it is interesting to note that essentially the same plan was suggested 115 years before Prof. Marshall by James Stewart when his advice was sought by the East India Company as to the method of reforming the then chaotic currency of Bengal. He refrained from pressing it upon the Company because he thought “mankind were not all philosophers.” Cf. his *Principles of Money as applied to the Present State of the Coin of Bengal* (2nd Edition, 1772), pp. 8-11; cf. also William Ward, *On Monetary Derangements*, in a *Letter addressed to the Proprietors of Bank Stock*, London, 1840, p. 8.

† Cf. Prof. Foxwell, *Oxford Economic Review*, 1893, Vol. III, p. 297.

‡ Cf. the reply by Prof. Cannan, *ibid.*, p. 457.

but no concurrent circulation of both the metals. If the Conferences broke down, it was not because they did not recognize the possibility, which was unanimously upheld by such an impartial tribunal as the Gold and Silver Commission of 1886, of a stable ratio being maintained under a bimetallic regime. They broke down because the bimetallic system did not guarantee the concurrent circulation of the two metals. However, it is certain the impossibility of concurrent circulation could not have been such a drawback if the immediate effect of bimetallism would have been a flow of gold into circulation. But as matters then stood the immediate effect would have been to bring silver into circulation. It was this more than anything else which scared away most of the nations from the adoption of the bimetallic system. Now, it is a curious thing that nations which had assembled together to bring about a stable ratio between gold and silver should have rejected a system which gave a promise of such a stability on the comparatively less significant ground that it had the effect of altering the composition of the circulation from gold to silver. But the fact must be recognized that at the time the question of reconstituting the bimetallic system was agitating the public mind, in most of the European countries gold and silver had ceased to be regarded as equally good for currency purposes. The superiority of gold to silver as a carrier of large value in small bulk was coming more and more to be appreciated in the latter part of the nineteenth century, and no plan of stabilization which did not provide for the unhindered circulation of gold was likely to meet with common approval. This prejudice was in no way confined to a gold-standard country like England. The closing of the Mints by the Latin Union is a proof positive of the change in the attitude of the bimetallic countries. As Jevons argued*:

“So long as its operation resulted in substituting a beautiful coinage of napoleons, half-napoleons, and five-franc pieces in gold for the old heavy silver ecus, there was no complaint, and the French people admired the action of their compensatory system. But when [after 1873] it became evident that the heavy silver currency was coming back again the matter assumed a different form.”

* *Money and Mechanism of Exchange*, 1890, p. 143.

So great was the prejudice in favour of gold that the interests of the chief Powers in the various Conferences, it may be truly said, waxed and waned with the changes in the volume of their gold reserves.* In 1878, the United States took the lead in calling the Conference because the working of the Bland Allison Act checked the inflow of gold necessary for its cash payments. Germany was indifferent because she had enough gold and was confident of selling off her demonetized silver without loss. In 1881 France and Germany showed more anxiety for reform because the former had lost all her gold and the latter was unable to palm off her silver. By 1892 none was so poorly supplied with gold as was the United States, largely as a result of a reckless policy which did her harm without doing good to anyone else, and she was therefore left alone to support the cause of silver.

Possessed as almost every Government was by this prejudice for gold, it was not an ineradicable prejudice. What the countries wanted was a lead from an influential nation. Throughout the debates at these Conferences one thing stood out very clearly. If England could have brought herself to adopt a bimetallic system, others, like sheep, would have followed suit. But she was too much wedded to her system to make a change, with the result that bimetallism, as a way out of the currency difficulties, became a dead project. The vanishing of the prospect of re-establishing the bimetallic system as a result of her obstinacy was a small matter to the European countries. They had virtually made gold, the international form of money, as the basis of their currency, and were therefore quite indifferent as to the issue; but it was a terrible blow to the hopes of India. After the proposal of 1878 had been turned down, bimetallism was considered by the Government of India as the remedy, and its advent looked forward to for salvation. It is true that in the beginning of bimetallic discussions the attitude of the Indian Government was rather lukewarm. In a despatch dated June 10, 1881,† to the Secretary of State, it was revealed that the Government of the time was divided in its opinion regarding the merits of bimetallism. The Viceroy and another member of Council refused their support on the ground that bimetallism was unsound in principle,‡ and even the majority who thought

* Cf. *The Report of the Indian Delegation to the International Monetary Conference of 1881*, C 3229 of 1882, p. 7; also Russell, op. cit., pp. 374-5.

† P.P.C 3229 of 1882, p. 33 *et seq.*

‡ *Ibid*, p. 37.

differently on this aspect of the question were not then prepared to go to the length of joining a bimetallic union, although they did not see any objection to doing so “if a sufficiently large number of other Governments were prepared to join” in it. With the growth of their financial difficulties, however, this slender faith in bimetallism considerably deepened, so much so that in 1886 the Government addressed to the Secretary of State a despatch* urging him to take the initiative in calling an International Monetary Conference to establish a stable ratio between gold and silver. So intense was its interest in the consummation of bimetallism that it did not hesitate to administer a sharp rebuke to the Treasury when they negatived its suggestion referred to them for consideration by the Secretary of State.† With such feelings of faith and hope the Government of India entered these international Conferences and watched their fortunes. But no Government could have been treated with such suspicion and injustice as was the Government of India. Its admission to the bimetallic union was desired by none of the Powers, not even by England.‡ It was treated as a villain whose advances were nothing but manoeuvres to pounce upon the already dwindling stock of gold. Not only was it planned to keep India out of the bimetallic union, but she was to be required to pledge herself not to take a mean advantage of the union after its efforts had succeeded in establishing a stable ratio by making gold legal tender.§ All these guarantees the Government of India had offered in a pathetic faithfulness to the cause of bimetallism, on the success of which it had depended so much. Consequently, when the attempt failed, the disappointment caused to the Government of India almost broke its heart. It is not too severe to say that the part played by the British authorities in causing this disappointment was highly irresponsible—one might almost say wicked. They forced India against her declared wishes to keep to the silver standard, partly to trail her off from making any demand for gold, and partly to silence the criticisms of other nations that Britain was not taking

* Dated February 2, 1886, see C. 4868 of 1886, p. 5 *et. seq.*

† Cf. the despatch of September 4, 1886, App. II to the *First Report of the Royal Commission on Gold and Silver*, 1886.

‡ Cf. the evidence before the Gold and Silver Commission of 1886 of Mr. S. Smith, Q. 4,825-30; also of Mr. Watney, Q. 9,427.

§ Cf. *The Report of the Indian Delegates*, p. 12.

her share in the matter of rehabilitating silver.* This was not the only advantage exacted from a country bound to obey. On the one hand it restrained the Government of India from taking any independent line of action in the matter of currency reform, and on the other such means as were calculated to make good the losses which arose from a depreciating currency were subjected to Parliamentary censure. The House of Commons was twice moved, once in 1877 and again in 1879, to resolve that the Government of India should lower its tariff, ostensibly in the interest of free trade, but really in the interests of relief to the depressed condition of Lancashire. The consequence was that the Government could not tap one important source of its revenue in times of its greatest adversity. The only adequate recompense, the British authorities could have made to a Government so completely paralysed by their dictations, and of whose interests they so loudly claimed to be the lawful trustees, was to have consented to join the bimetallic union, the consummation of which only waited upon their grace. But, as is well known, they did nothing of the kind, so that, after a period of enforced waiting and by no means unavoidable suffering, the Government of India, at the end of 1893, found itself just where it was at the beginning of 1878.

Like all common-sense people who pray and yet do not fail to keep their powder dry, this interval was utilized by the silver-ridden countries, with the exception of the United States, in strengthening their gold basis no less than in attending the deliberation of the Monetary Conferences on the amusing plans for extending the use of silver.† Mr. Goschen, at the Conference of 1878, had quite philosophically remarked that States feared to employ silver because of its depreciation and the depreciation continued because the States feared to employ it. Now, if the first part of the diagnosis was correct, we should have found the States seriously engaged in the task of rehabilitating silver when its price was propped up by the silver legislation of the United States. On the other hand, just so far as the monthly purchases of silver, under the Bland Allison Act of 1878, or the Sherman Act of 1890, held up the price of silver, not only did they not feel anxious to take steps to restore it to its former

* Cf. the speech of Mr. Goschen at the International Monetary Conference of 1878, Third Session. Report of the American Delegates, Senate Executive Document, No. 58, Forty-fifth Congress, Third Session, Washington, 1879, pp. 50-52.

† Cf. for the variety of plans suggested at the Conferences *The Report of the American Delegates to the International Monetary Conference of 1892*, Washington, 1893.

position, but they actually took advantage of the rise to discard it.* And it is not possible to blame them either, for with the prospect of a bimetallic union vanishing into thin air the accumulation of this dead weight would have only ended in a gratuitous embarrassment. India alone refused to profit by the squeeze, which the United States took vicariously for other nations, and allowed precious time to slip by, with the result that it was thrown back upon the same remedy, the adoption of which was negated in 1878.

If it was to be a gold standard it would have been better if it had been done in 1878. The plan then outlined by the Government of India was no doubt too complicated and too flimsy to be practicable. But its rejection should not have altogether suspended the introduction of a gold standard. If it was to be one of an orthodox kind on the English pattern, it would have no doubt involved some cost to the Government in being obliged to sell at a reduced price a part of the silver stock of the country in order to give the rupee a subsidiary position and to fill the void by a gold currency. The cost of this conversion in 1878 would have been inconsiderable, for the fall of silver from its normal gold price was only 12½ per cent. On the other hand, if it was to be on such an unorthodox plan as that of Colonel Smith, it would have involved no cost at all to the Government† beyond that involved in the installation of new machinery for the coinage of gold at the Mint. But in 1893 both

* Cf. Russell, *op. cit.*, p. 410 ; also Prof. F. A. Walker, "The Free Coinage of Silver," in *The Journal of Political Economy* (Chicago), Vol. I, p. 174.

† So evident was this the case that the *London Times*, although it did not agree that any change was then urgently called for, yet observed in the leading article in its issue of October 25, 1876, p. 9, cl. 2 : "The Governor-General in Council dismisses the suggestion of a gold standard on the ground that the present condition of affairs, bad as it is, does not call for so costly a remedy ; but this involves a misconception of the proposal. The substitution of a gold for a silver currency in India would be a most extensive and costly operation, but to refuse to coin silver and to offer to coin gold for all comers would involve no cost beyond that of new machinery. If it was announced that after a certain day the coinage of silver was suspended, and that gold could be coined instead, for whoever might bring it, in coins that would be exchangeable for rupees at a fixed rate, there would be introduced into India the bimetallic system prevailing in France, and a change in the currency would be gradually introduced. At first no gold would be brought to be coined, but as the suspense of the coinage of silver operated to raise the value of the rupees in existence to the par value defined by the fixed rate of exchange of rupees and gold, gold would be more and more brought to the Mint, and would find its way into circulation. The process would be automatic and not costly, but it would be extremely slow, etc."

these processes of bringing about a gold standard seemed quite hopeless. The impossibility of the plan of conversion was quite out of the question. The fall in the value of silver in 1893 was nearly 35 per cent. Even the prospect of the Smith plan did not appear very bright owing to the enormous addition of rupees to the circulation of the country. If it had been adopted in 1878, all the subsequent additions to the currency would have been in gold, with the result that by 1893 the proportion of gold to silver would have been large enough to have endowed the whole currency system with the desired stability in relation to countries on a purely gold basis. In 1893 the mass of silver currency had grown to enormous proportions, so that it looked certain that it would take decades before the stoppage of silver coinage could make the rupee a stable and secure form of currency.

The plans showing a way out of an *impasse* such as this were legion. One was the issue of heavier rupees.* The second was to make silver limited legal tender and to authorize the Secretary of State to sell in London gold or silver Indian stock to the extent of his gold payments, to be liquidated by the Government of India by the issue of unlimited legal-tender notes called "bons."† The third was that England and India should, as between them, adopt a bimetallic standard on a new basis,‡ or to admit the rupee as full legal tender in the United Kingdom.§ The fourth was to regulate the opening and closing of Mints to coinage on the basis of deviations of actual exchange rates from the rate of exchange fixed at the opening of each year for the Council drafts of the Secretary of State. Under this scheme, so long as the actual rate did not exceed the fixed rate by less than 5 per cent., the free coinage of silver was to be suspended.¶ The fifth was to provide that on the one hand the Secretary of State should fix a minimum rate for his drafts, and that the Government of India on the other should levy a duty on all imports of silver equal to the difference between the daily official quotations of bar silver in London and the price of silver corresponding to the rate fixed for the Council drafts.‡‡ The sixth was to introduce a bimetallic coin, to be called the Imperial

* By Aston and also by R. West, I.C.C., 1893. App. III, pp. 281 and 325.

† By Atkins, *ibid.*, p. 282.

‡ By Chapman, *ibid.*, p. 282.

§ By Woodhouse, *ibid.*, p. 33.

¶ By Graham, *ibid.*, p. 305.

‡‡ By M. Schilizz, *ibid.*, p. 319.

florin or rupee, made of the value of 2s. and containing 4 per cent, weight in gold and the balance in silver.* The seventh was to establish independent gold and silver standards without any fixed ratio of exchange between them.† or with some slight inducement for the use of gold in transactions of larger denominations.‡‡ Although the Government of India was not in agreement with these clever if not crazy plans of currency reforms, it agreed in the aim they had in view, namely, to place India on a gold basis without involving the actual use of gold in place of the existing rupees in circulation. With this aim in view it revived for adoption the more simple and more scientific plan of Colonel Smith. As a preliminary, the Government reverted to the policy of the resolution of the Bengal Chamber of Commerce, to the adoption of which it saw such “fatal objections” in 1876. In the despatch dated June 21, 1892, which contained the proposals, the Government of India asked for nothing more. In the words of their author§ they proposed

“That the Indian Mints should be closed to the unlimited coinage of silver, and *no further steps taken* until the effect of closing the Mints had been ascertained.

“The ratio at which the change from silver to the gold standard should be made was subsequently to be settled and it was said that a ratio based on the average price of silver during a limited period before the Mints had been closed would probably be the safest and most equitable. When this ratio had been settled, the Mints were to be opened to the coinage of gold at that ratio, and gold coins were to be made legal tender to any amount.”

These proposals were submitted for examination to a Departmental Committee, commonly known as the Herschell Committee. They were said to be defective in one important particular, and that was the absence of due recognition of the necessity of a gold reserve for the maintenance of the value of the rupee. Many people felt doubtful of the success of the proposals unless

* By Stalkart, *ibid*, p. 322 ; also a very similar one by Merington, *ibid*, p. 316.

† By Perry, *ibid*, p. 323.

‡‡ By Claremonth Daniell, *ibid.*, p. 292.

§ Sir David Barbour, *The Standard of Value*, 1912, pp. 202-3. Italics not in the original.

backed by an adequate gold reserve. But the Herschell Committee, after an extended investigation into the working of the currency systems of different countries, reported* :—

“It is impossible to review foreign systems of currency, without feeling that, however admirable may be the precautions of our own [English] currency system, other nations have adopted different systems which appear to have worked without difficulty, and enabled them to maintain for their respective currencies a gold standard and a substantial parity of exchange with the gold-using countries of the world”

with little or no gold. The Committee, therefore, was completely satisfied with the proposals of the Government of India, and not only sanctioned their adoption,† but added, by way of introducing a modification in them, that

“The closing of the Mints against the free coinage of silver should be accompanied by an announcement that, though closed to the public, they will be used by the Government for the coinage of rupees in exchange for gold at a ratio to be then fixed, say 1s. 4*d.* per rupee, and that at the Government Treasuries gold will be received in satisfaction of public dues at the same ratio.”‡

These recommendations were carried into effect on June 26, 1893, which forms as great a landmark in the history of Indian currency as did the year 1835. On that date were promulgated one legislative enactment and three executive notifications, together calculated to accomplish the object in view. The Act (VIII) of 1893 was only a repealing Act. It repealed:—

(i) The Indian Coinage Act, XXIII of 1870.

Sections 19 to 26 (both inclusive), requiring the Mint Masters to coin all silver brought to their Mints for coinage.§

* Report, par. 93.

† Report, par. 155.

‡ Report, par. 156.

§ These sections also contained provisions for the coinage of all gold brought to the Mints for the purpose by private persons. The quantity brought to the Mints was quite trifling, and the gold coins, i.e. the mohurs struck, were not legal tender. As they were to be superseded by sovereigns to be coined at the Mints upon their being subsequently thrown open to the free coinage of gold, it was thought undesirable that any more of these mohurs should be coined. Consequently, along with silver, Mints were also closed to gold.

(ii) The Indian Paper Currency, 1882.*

- (a) Section 11, Clause (b), requiring the Paper Currency Department to issue notes against silver coin made under the Portuguese Convention Act, 1881,†
- (b) Section 11, Clause (a), requiring the Paper Currency Department to issue notes against silver bullion or foreign silver coin.‡
- (c) Section 13. Only the proviso limiting the gold portion of the Paper Currency Reserve to one-fourth of the Total Reserve.§

These repeals by the Act were supplemented by an executive Notification No. 2663, announcing in conformity with the suggestion of the Herschell Committee that the Government Treasuries would receive sovereigns and half-sovereigns of current weight in payment of public dues at the rate of 15 rupees and 7 rupees 8 annas respectively.

Since gold was not made general legal tender by any of the above measures, it was feared that the Government might be embarrassed by the accumulation in its Treasuries of a stock money which it could not pay out in discharge of its obligations. To enable Government to rid the Treasuries of gold, should it accumulate in them to an inconvenient extent, there followed another Notification, No. 2664, requiring that the Currency Department should issue, on the requisition of the Controller-General, currency notes in exchange for gold coin or gold bullion, at the rate of one Government rupee for 7.53344 grs. troy of fine gold, or sovereigns or half-sovereigns at the rate of 15 rupees and 7 rupees 8 annas respectively.

To give effect to the second modification introduced by the Herschell Committee, there was issued a third Notification, No. 2662, to the effect that

“The Governor-General in Council hereby announces that, until further orders, gold coins and gold bullion will be received by the Mint Masters of the Calcutta and Bombay

* The repeal of these sections of the Act also called for the repeal of other sections depending upon them, such as sections 14 and 15 and alterations in Sections 21 and 28, to bring the whole Act in accord with the policy of a gold standard then inaugurated.

† The Convention had come to an end and the retention of the clause was therefore unnecessary.

‡ The retention of this clause would have been inconsistent with the closure of the Mints.

§ As gold was to be the future standard of India, this limitation was no longer necessary.

Mints respectively, in exchange for Government rupees, at the rate of 7.53344 grs. troy of fine gold for one rupee on the following conditions :—

- (1) Such coins or bullion must be fit for coinage.
- (2) The quantity tendered at one time must not be less than 50 tolas.
- (3) A charge of one-fourth per mille will be made on all gold coin or bullion which is melted or cut so as to render the same fit for receipt into the Mint.
- (4) The Mint Master, on receipt of gold coin or bullion into the Mint, shall grant to the proprietor a receipt which shall entitle him to a certificate from the Mint and Assay Masters for the amount of the rupees to be given in exchange for such coin or bullion payable at the General (Reserve) Treasury, Calcutta or Bombay. Such certificates shall be payable at the General Treasury after such lapse of time from the issue thereof as the Comptroller-General may fix, from time to time.”

Before the policy adumbrated by these measures was carried to completion there came up a move for the undoing of it. After the failure of the International Monetary Conference of 1892 the United States and France, two countries most heavily burdened with an overvalued stock of silver, opened negotiation with the British Government, asking the latter to agree to certain conditions on the grant of which they were to open their Mints to the free coinage of silver at the ratio of 15½ to 1. These conditions included :*

- (1) Opening of the Indian Mints, which had been closed to the free coinage of silver, and an undertaking not to make gold legal tender in India.
- (2) Placing one-fifth of the bullion in the Issue Department of the Bank of England in silver.
- (3) (a) Raising the legal-tender limit of silver in England to £10.

* Cf. Correspondence respecting the Proposals on Currency made by the Special Envoys from the United States, P.P.C. 8667 of 1897, p. 3.

- (b) Issuing the 20s. notes based on silver, which shall be legal tender.
- (c) Retirement, gradual or otherwise, of the 10s. gold pieces, and substitution of paper based on silver.
- (4) Agreement to coin annually a certain quantity of silver.
- (5) Opening of English Mints to the coinage of rupees and for coinage of British dollars, which shall be full legal tender in Straits Settlements and other silver-standard Colonies, and tender in the United Kingdom to the limit of silver legal tender.
- (6) Colonial action, and coinage of silver in Egypt.
- (7) Something having the general scope of the Huskisson plan.

In these negotiations the Treasury again reverted to its old pose. It refused to discuss the conditions requiring a change in the British currency, but argued that the opening of the Indian Mints, if brought about, should be regarded as an adequate “contribution which could be made by the British Empire towards any international agreement with the object of securing” a stable monetary par of exchange between gold and silver,* and the representatives of the United States and France seemed to have concurred in that view. The negotiations, however, failed, because of the firm stand taken by the Government of India. The Government had suffered too long to be the scapegoat of the Treasury. Nor did it see any reason why it should be called upon to pull the chestnuts off the fire for the benefit of France and the United States. In a letter commenting upon the proposals, the Government of India observed†:—

“The changes which are involved in the arrangements proposed to Her Mahesty’s Government are the following : France and the United States are to open their Mints to the free coinage of silver, continuing the free coinage of gold and the unlimited legal tender of coins of both metals, the ratio remaining unchanged in France and being altered in the French ratio of 15½ to 1 in the United States. *India is to open*

* Cf. letter dated October 16, 1897, to the Foreign Office, P.P.C. 8667 of 1897, p. 15.

† Despatch dated September 16, 1897, to the Secretary of State, *ibid*, p. 9. Italics not in the original

her Mints to silver, to keep them closed to gold, and to undertake not to make gold legal tender. France and the United States would thus be bimetallic; India would be monometallic (silver); whilst most of the other important countries of the world would be monometallic (gold).

* * * * *

“The first result of the suggested measures, if they even temporarily succeed in their object, would be an immense disturbance of Indian trade and industry, by the sudden rise from about 16d. to about 23d. the rupee. Such a rise is enough to kill our export trade, for the time at least such an arrangement as is proposed is an infinitely more serious question for India than for either of the other two countries, for it seems clear that practically the whole risk of disaster from failure would fall on India alone. What would happen in each of the three countries if the agreement broke down and came to an end? France possesses a large stock of gold, and the United States are at present in much the same situation as France, though the stock of that metal is not so large. It may be admitted that if no precautions were taken these gold reserves might disappear under the operation of the agreement, and in that case, if the experiment ultimately failed, the two countries concerned would suffer great loss. But it is inconceivable that precautions would not be taken, at all events, so soon as the danger of the depletion of the gold reserves manifested itself, and, therefore, it is probable that no particular change would take place in the monetary system of France or the United States, the only effect of the agreement being a coinage of silver which would terminate with the termination of the agreement. Thus the whole cost of the failure, if the experiment should fail, would be borne by India. Here the rupee would rise with great swiftness, it would keep steady for a time, and then, when the collapse came, it would fall headlong. What course could we then adopt to prevent the fluctuation of the exchange value of our standard of value with the fluctuations in the price of silver? We do not think that any remedy would be open to us, for if the Indian Mints were reopened to silver now, it would be practically impossible for the Government of India to close them again, and even if they were closed it would only be after very large additions had been made to the amount of silver in circulation.”

But soon after it had refused to be diverted from the goal it had placed before itself, namely the introduction of a gold standard, it was faced with a crucial problem in its existing monetary arrangements. The rupee stock, the addition to which was stopped since 1893 by the closure of the Mints, was large enough to meet the needs of the people for some considerable time, in the first few years after the closure, the rupee currency was not only abundant but was also redundant. Soon it ceased to be redundant, and indeed by the end of 1898 it became scarce, so much so that the discount rate in the Indian money market rose to 16 per cent., and continued at that pitch during the larger part of the year. Such was the outcry against what was called the policy of “starving” the currency, that the Government was obliged to pass an Act (No. II) of 1898 to permit currency notes issued in India against gold tendered in London to the Secretary of State. The Act was doubly easeful to the then starved condition of the Indian money market. By the measures adopted in 1893 gold was not general legal tender, so it could not be used when the rupee currency fell short of the needs of the time. The new Act, it is true, did not make gold general tender, but permitted it to be used on behalf of the general public* as a backing for the issue of currency notes which were general legal tender. The Act, however, could have required that gold be laid down *in India* before notes could be issued. But as the remittance of gold to India took some three or four weeks, it was feared† that the remedy might “prove too tardy to be effective” unless the interval was done away with by providing that gold with the Secretary of State in London was lawfully tantamount to gold with the Paper Currency Department in India for the purposes of note issue.

In doing this the Act only testified to the urgency of the situation. A sound currency system must be capable of expansion as well as contraction. The Government, by the closure of the Mints in 1893, had contracted the currency to the point of danger. In 1898 it was called upon to undertake measures to provide for its expansion. Now, there were two methods open to bring about this desired result. One was to keep the Mints closed and to permit additions to currency through the use of the gold by making the sovereign general

* By Notification No. 2664 of 1893, notes could be issued against gold only to the Comptroller-General.

† Cf. the speech of the Hon. Sir James Westland introducing the Bill, dated January 14, 1898.

legal tender. This was the plan proposed by the Government of India, in their despatch dated March 8, 1898,* they argued ;—

“Our present intention is rather to trust to the automatic operations of trade. The amount of coin required for the needs of commerce increases every year: and as we print no increase in the amount of silver coin, we may reasonably expect that the effect of the increasing demand for coin will raise exchange to a point at which gold will flow into the country, and remain in circulation. The position will thus become stronger and stronger as time goes on, but at the beginning at least, gold will not be in circulation in the country *to* more than the *extent* necessary to secure stability of exchange. The mass of the circulation will be a silver circulation, maintained at an appreciated value (just as it is at present), and we can be content to see gold coin remain little more than a margin, retained in circulation by the fact that its remittance out of the country could create a scarcity of coin which would have the effect of raising the exchange value of the silver rupee in such manner as to bring it back, or, at the very best, stop the outward current of remittance. We shall have attained a gold standard under conditions not dissimilar from those prevailing in France, though not a gold circulation in the English sense ; and this last may possibly not be necessary at all.”

Besides expanding the currency through the use of gold, there was also another mode of effecting the same object. It was urged that this increase of currency might as well take place by Government coining rupees whenever there arose a need for additional currency. Though the Mints were closed, the Government, by Notification No. 2662, had undertaken to give rupees to anyone desiring to have them at the rate of 7.53344 grs. troy of fine gold per rupee.† The Government had only to give effect to that notification to augment the currency to any extent desired. Prominent in the advocacy of this plan of expanding the currency were Mr. Probyn and Mr. A. M. Lindsay. Both claimed that the plan of the Government of India was

* Cf correspondence respecting the Proposals on Currency made by the Government of India, C. 6840 of 1898, p. 3.

† See *supra*.

defective because, although it provided for the expansion of currency by making gold legal tender, it made the rupee entirely inconvertible, and thereby likely to defeat the policy of stabilizing its exchange value. On the other hand, they deemed their plans to be superior to that of the Government of India because they recognized the obligation to provide for the conversion of the rupee currency on certain terms. Although the plans of both of them had contemplated some kind of convertibility, yet they materially differed in the particular mode in which conversion was to be effected. Mr. Probyn proposed* :—

1. That legislative effect should be given to the notification of 1893, under which the public can obtain rupees at the Indian Mints and Reserve Treasuries in exchange for gold, at the rate of 1s. 4d.
2. That the gold so received should be part of the paper currency reserve, and should be held either in the form of full legal-tender gold coins of the United Kingdom, or gold bars representing not less than Rs. 1,000 each.
3. That in order to give the rupee currency automatic power of contraction, Government should be empowered (though not required) so soon as the portion of the paper currency reserve has continuously for one year been less than that held in gold, to give gold in exchange for rupees or rupee notes at the rate of 1s. 4d., if presented for the purpose in quantities of Rs. 10,000.
4. That the existing Rs. 10,000 notes should be called in, and, in future, notes of Rs. 10,000, payable at the option of the holder either in gold or in silver rupees, should be issued in exchange for gold alone, gold in the form of bars being specially reserved to meet any such notes outstanding.

Mr. Lindsay, on the other hand, followed on lines quite different from those adopted by Mr. Probyn. He proposed† that the Government should offer to sell, without limit on the one

* Cf. his *Indian Coinage and Currency*, Effingham Wilson, London, 1897, *passim*, particularly p. 121. Also the summary by Lindsay in the *Economic Journal*, Vol. VII, pp. 574-75.

† The earliest elaboration of his plan is to be found in his article in the *Calcutta Review* for October, 1878, under the title, "A Gold Standard without a Gold Coinage in England and India," and the latest, in his pamphlet called *Ricardo's Exchange Remedy*, Effingham Wilson, 1892. The plan was further developed in the newspaper *Pioneer* of Allahabad (India), dated January 6, 1898, full extracts from which are given in C. 8840 of 1898, p. 13.

hand, rupee drafts on India at the exchange of 16 1/16d. the rupee, and on the other hand, sterling drafts on London at the rate of exchange of 15³/₄d. the rupee. The funds necessary for the transactions were to be kept separate from the ordinary Government balances in "Gold Standard" Offices in London and in India. The London Office was to be kept in funds to meet drafts drawn on it—

- (1) by borrowing in gold to the extent of five or ten million sterling;
- (2) by the receipts realized by the sale of drafts on India;
- (3) by the receipts realized by the sale of silver bullion in rupee melted down;* and
- (4) when necessary, by further gold borrowing.

The Indian Gold Standard Office was to be kept in funds to meet the drafts drawn on them—

- (1) by the receipts realized by the sale of drafts on London ; and
- (2) by the coinage when necessary of new rupees from bullion, purchased by the London Gold Standard Office and sent to India.

The principal point of difference between the scheme of currency advocated by the Government of India on the one hand and that put forth by Messrs. Probyn and Lindsay consisted in the fact that the former proposed to establish a gold standard *with* a gold currency, while the latter proposed to establish a gold standard *without* a gold currency.

To adjudicate upon the relative merits of a gold standard with a gold currency and a gold standard without a gold currency, the Secretary of State appointed another departmental Committee, under the chairmanship of Sir Henry Fowler. After taking a mass of important evidence, the Committee observed† :—

"50. On this scheme [of Mr. Probyn] we remark that, while bullion may be regarded as the international medium of exchange, there is no precedent for its permanent adoption for purposes of internal currency; nor does it accord with

* Mr. Lindsay contemplated that when the demand for gold drafts on London became so great as to indicate the necessity, the volume of the rupee currency should be contracted by melting down the rupees and selling the silver for gold to be deposited in the London "Gold Standard" Office.

† Report of the Committee appointed to inquire into the Indian Currency, P.P. C 9390 of 1899, p. 15.

either European or Indian usage that the standard metal should not pass from hand to hand in the convenient form of current coin. No real support for such a scheme is to be drawn from the purely temporary provisions of "Peel's Act" of 1819, whereby, for a limited period, the Bank of England, as a first step to the resumption of cash payments, was authorized to cash, in stamped gold bars, its notes, when presented in parcels of over £ 200. Little or no demand for gold bullion appears to have been made on the Bank itself in 1321.

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"53. It is evident that the arguments which tell against the permanent adoption of Mr. Probyn's bullion scheme, and in favour of a gold currency for India, tell more strongly against Mr. Lindsay's ingenious scheme for what has been termed 'an exchange standard.' We have been impressed by the evidence of Lord Rothschild, Sir John Lubbock, Sir Samuel Montagu and others, that any system without a visible gold currency would be looked upon with distrust. In face of this expression of opinion, it is difficult to avoid the conclusion that the adoption of Lindsay's scheme would check that flow of capital to India upon which her economic future so greatly depends. We are not prepared to recommend Mr. Lindsay's scheme, or the analogous schemes proposed by the late Mr. Raphael and by Major Darwin, for adoption as a permanent arrangement; and existing circumstances do not suggest the necessity for adopting any of these schemes as a provisional measure for fixing the sterling exchange."

The Committee preferred the scheme of the Government of India, and outlined a course of action to be adopted for placing it on a permanent footing, which may be stated in the Committee's own language as follows:—

"54. We are in favour of making the British sovereign a legal tender and a current coin in India. We also consider that, at the same time, the Indian Mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian branches of the Royal Mint. The result would be that, under identical conditions, the sovereign would be coined and would circulate both at home

and in India. Looking forward, as we do, to the effective establishment in India of a gold standard and currency, based on the principles of the free inflow and outflow of gold, we recommend these measures for adoption."

These recommendations were accepted by the Secretary of State,* who decided that—

"the policy of keeping the Indian Mints closed to the unrestricted coinage of silver shall be maintained,"

and called upon the Government of India as soon as it deemed expedient to

"take the necessary steps for making the British sovereign a legal tender and a current coin, and make preparations for the coinage of gold under the conditions suggested by the Committee."

The first recommendation of the Committee was given effect to by the Government passing an Act commonly called the Indian Coinage and Paper Currency Act (XXII) of 1899. That Act made the sovereign and half-sovereign legal tender throughout India at the rate of Rs. 15 and Rs. 7½ respectively, and authorized the issue of currency notes in exchange for them.

Along with placing the Indian currency on a gold basis, the Government was anxious to open a Mint for the free coinage of gold. But as the coin to be issued from the Mint was the English "sovereign" the Government of India was entirely in the hands of the British Treasury. According to the provisions of the English Coinage Act of 1870, it was necessary to issue a Royal Proclamation in order to constitute an Indian Mint a branch of the Royal Mint, a matter entirely dependent on the consent of the Treasury. It was the intention of the Government of India to announce the Proclamation simultaneously with the passing of the Act making the sovereign legal tender. Indeed it held back the legislation pending the arrival of the proclamation.† and proceeded with it reluctantly when it was advised that there was likely to be "some further delay over the Proclamation owing to legal and technical questions." The objections raised by the Treasury, though merely technical, at first seemed to be quite insuperable,‡ and had it not been for the conciliatory attitude of the India Office the negotiations would have broken

* See despatch dated July 25, 1899, No. 140 (Financial), C. 9421 of 1899.

† Cf. the speech of the Hon. Mr. Dawkins on the Indian Coinage and Paper Currency Bill, dated September 8, 1899.

‡ Cf. H. of C. Return 495 of 1913, p. 14.

down. But the Treasury was not willing to give the project a chance. Just when a compromise was arrived at on the technical side of the question, the Treasury turned round and raised the question whether a Mint for gold coinage was at all necessary in India. The Treasury argued :—

“While expressing their satisfaction that an agreement has now been reached, my Lords think it desirable, before practical steps are taken to carry out the scheme, to invite Lord George Hamilton to review the arguments originally advanced in favour of the coinage of the sovereign in India, and to consider whether the course of events, in the two years which have elapsed since the proposal was made, has not tended to diminish their force, and to render such advantages as are likely to accrue from the establishment of a branch Mint wholly incommensurate with the expense to be incurred... The gold standard is now firmly established, and the public requires no proof of the intention of the Indian Government not to go back on their policy, which is beyond controversy. Sovereigns are readily attracted to India when required under existing conditions... On the other hand the estimates of the Government of India of gold available for coinage in that country are less than was anticipated, nor is any considerable increase expected, at any rate for some time

The staff would have to be maintained in idleness for a large part of the year, at a considerable cost to the Indian Exchequer... It is, of course, for Lord George Hamilton to decide whether, in spite of these objections, the scheme is to be proceeded with.”

The India Office replied :—

“The establishment of a Mint for the coinage of gold in India is the clearest outward sign that can be given of the consummation of the new currency system; and to abandon the proposal now must attract attention and provoke criticism and unrest His Lordship is not inclined to abandon the scheme at the stage which it has now reached.”

The Treasury sent a trenchant rejoinder, in which it remarked:—

“Indian currency needs are provided from other sources, and there is no real demand for the local coinage of sovereigns My Lords cannot believe that the position of the Gold Standard in India will be strengthened, or public confidence in the intention of the Government confirmed, by providing machines for obtaining gold coin The large measure of confidence already established is sufficiently indicated by the course of exchange since the Committee’s Report and still more by the readiness with which gold has been shipped to India

That the Treasury acted “in a spirit of scarcely veiled hostility to the whole proposal” is unmistakable. But it cannot be denied that the Treasury used arguments that were perfectly sound. It was inconsequential to the working of the gold standard whence the coined sovereigns came. So long as a Mint was open to the free coinage of sovereigns the Indian gold standard would have been complete irrespective of the location of the Mint. Indeed, to have obtained coined sovereigns from London would have not only sufficed, but would have been economical. The anxiety displayed by the government was not, however, on account of the want of a gold Mint. Indeed, so slight was its faith in the necessity of it that in view of the opposition of the Treasury it gracefully consented to drop the proposal. What troubled it most was the peculiar position of the rupee in the new system of currency. Throughout the despatch of the Government of India there ran a strain of regret that it could not see its way to demonetize the rupee and to assimilate the Indian currency to that prevailing in England. A general perusal of the despatch leaves the impression that though it recommended the assimilation of the Indian currency to that of France and the United States, it did so not because it thought that their systems furnished the best model, but because it believed that a better one was not within reach. Having regard to the accepted view of the French and the United States currency systems, it was natural that the Government of India did not feel very

joyful about its own. According to that view of the currency systems of these two countries, the position of the five-franc piece and the silver dollar has always been presented as being very anomalous. Even so great an authority as Prof. Pierson was unable to assign them a place intelligible in the orthodox scheme of classifying different forms of money.* In a well-ordered system of gold standard of the orthodox type, gold is the only metal freely coined and the only one metal having full legal-tender power; silver, though coined, is coined only on Government account in limited amounts, and being of less intrinsic value than its nominal value, is a limited legal tender. The former type of coins are called standard coins and the latter subsidiary coins, and the two together make up the ideal of a monometallic gold standard such as has been established in England since 1816. In a scheme of things like this, writers have found it difficult to fit in the dollar or the five-franc piece. Their peculiarity consists in the fact that although their intrinsic value is less than their nominal value they have been inconvertible and are also unlimited legal tender. It is owing to this anomaly that the title of gold standard has been refused to the American and French currency systems. Few can have confidence in what is called the limping standards in which it is said that somehow "the silver coin, though intrinsically of less value than the gold, hobbles along, maintained at equality by being coupled with its stronger associate."‡

But was the French system of currency so very different from the English as to create doubt as to its stability? Whatever may have been the differences between the two systems a closer analysis shows that they are fundamentally identical. If we read together the French bimetallic law of 1803 and the Mint Suspension Decree of 1878 on the one hand, and on the other the provisions of the English Gold Standard Act of 1816,

* Cf. Principles of Economics, Vol. I, p. 569.

† It was owing to this want of faith that Germany took away, by the law of October 1, 1907, the full legal-tender power from her silver thalers. In the United States the silver dollar is not legal tender if it is specifically excluded by the terms of a contract. Cf. A. C. Whitaker, *Foreign Exchange*, Appleton, New York, 1920, pp. 8. and 477.

‡ C. F. W. Taussig, *Principles*, 2nd ed., 1913, p. 280.