MONEY POWER FOR INDIA

BY

M. DE P. WEBB, C.I.E.

With the author's compliments.

MONEY POWER FOR INDIA

BY THE SAME AUTHOR

ADVANCE, INDIA!

SOME PRESS OPINIONS

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LONDON

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FELLOW OF THE ROYAL STATISTICAL SOCIETY
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"INDIA AND THE EMPIRE," "BRITAIN'S DILEMMA," "AROUND THE WORLD," "A GLIMPSE OF SOUTH AFRICA," "A PEEP AT AUSTRALIA," "THE GREAT POWER," "BRITISH COMMERCE," "SWADESHI MOVEMENTS," "ADVANCE, INDIA!" "DOUBLING KARACHI," ETC.

"It is our earnest desire to stimulate the peaceful industry of India, to promote works of public utility and improvement, and to administer its government for the benefit of all our subjects resident therein. In their prosperity will be our strength, in their contentment our security, and in their gratitude our best reward. And may the God of all power grant to us and to those in authority under us, strength to carry out these our wishes for the good of our people."

Extract from the Proclamation of Queen Victoria, November 1, 1858.

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". . . of Thee we do beg assistance. Direct us in the right way" . . .

MONEY POWER FOR INDIA

THE following Paper was read before the East India Association at Caxton Hall, Westminster, on October 27, 1913, by Mr. M. de P. Webb, C.I.E.

SYNOPSIS.

Money Power.

What is it?—Money not merely a "medium of exchange," but "the mightiest engine to which man can lend an intelligent guidance"—Whence money derives its power—Why its value changes—Results of changes in value—Danger ahead.

Money Power for India.

India merits the best that we can give her—What that best is—Some facts in India's monetary history—England demonetized India's gold money, but quickly regretted her action; yet England is now opposing

THE RESTORATION OF FREE COINAGE, and

THE RESTORATION OF A GOLD CURRENCY TO INDIA.

The reasons for the present opposition: (*a*) Theoretical: Replies thereto; (*b*) Practical: Replies thereto—The economic situation in the United Kingdom—The dangers of the situation—A reply to the *Times*.

THE STATE BANK FOR INDIA PROBLEM.

Theoretical advantages—The control of money power in the United Kingdom—Is the same situation to be reproduced in India?—Lord Mayo's opinion—The State Bank must be a Department of Government

THE PAPER CURRENCY OF THE FUTURE.

A new source of monetary strength—A rational currency.

CONCLUSION.

At the invitation of the East India Association, I have been endeavouring to throw into intelligent form some of the conclusions to which twenty years of theoretical and practical study of the problem of Money Power have brought me.

The subject is a fascinating one. Though as important to civilized mortals as the air we breathe, the majority of us give little or no thought to what is, in truth, one of the most marvellous inventions of the human brain. The few who do study the subject of money seem sometimes to arrive at such divergent conclusions that discussions of currency problems are nowadays barred from all decent society. Such discussions certainly seem to generate an exceptional amount of heat. I hope, however, that what I am about to venture to-day will not produce any unexpected conflagration. If at times I express my opinion too dogmatically, I hope that I may be pardoned by those who hold views perhaps extremely divergent from my own. My only excuse can be that I have endeavoured to obtain and digest almost everything that has been written on the subject in the English language; that I have in the course of my business as a merchant and financier in India handled monetary problems almost every day of my life; that I have passed through the crises of 1893, 1900, and 1907, and that I have at different times visited different portions of Europe, Asia, America, Australia, and South Africa—always gathering what I could about monetary problems; so that now I labour under the delusion—I quite recognize that it may be a delusion—that I am beginning at last really to understand something about this subject.

Before tackling Money Power for India, I should like to say something about money power in general. I do not propose to ask you to peer into the distant past when our remote ancestor, with perhaps a spare wife to get rid of, was searching for a fellow savage with too many sheep but insufficient marital engagements. Those early days of barter appear to me to give us no more clue to the phenomenon of modern money power, than the contemplation of Watt and his tea-kettle does to the mysteries of a present-day locomotive. I would prefer to ponder over a British sovereign, or a Scotch one pound note, or the Indian paper currency, or Mr. Carnegie's cheque book, each of which conveys a lesson that college professors building up their "medium of exchange" theories of money appear sometimes to undervalue, rather than spend time in tracing the evolution of money back to those periods of which history gives us but little record and the imagination accordingly supplies the bulk of the material.

Simple Simon, you will remember, failed to extract the much wanted pie from the business-like purveyor of those excellent comestibles, because he lacked the necessary penny. Therein lies a moral. And the moral is that as in Simple Simon's time, these are the days of buying and selling, not of barter. Only by the offer of good money can we now procure what we require. The difference between the man who owns a hundred sovereigns and another who possesses a hundred pounds worth of sardines, cricket bats, or Irish land stock, is obvious. The one can procure practically anything that he requires—to the extent of his hundred pounds—whilst the other must first search for somebody who wants sardines, or cricket-bats, or Irish land stock. In short, the one immediately commands; the other, for the time being, is a suppliant. And if we can say that one hundred sovereigns represent power to that extent, how are we to describe the cheque book of the modern financier? Your city Crœsus scribbles a few lines, and a thousand slaves in each corner of the globe spring up to do his bidding. A palace in South Africa and another in Park Lane—a canal through this isthmus and a railway across that continent—lakes dug and mountains removed—is there anything that our modern Aladdins are unable to accomplish provided they possess sufficient of the magic money power?

Clearly, to describe such an invention as a mere "medium of exchange" is to mislead the multitude. Money is a tool, a purchasing instrument, an efficient machine that can be employed with astonishing results in almost all places and circumstances. Alexander del Mar has gone so far as to call it ". . . the mightiest engine to which man can lend an intelligent guidance. Unheard, unfelt, unseen, it has the power to so distribute the burdens, gratifications, and opportunities of life, that each individual shall enjoy that share of them to which his merits or good fortune may fairly entitle him; or contrariwise, to disperse them with so partial a hand as to violate every principle of justice, and perpetuate a succession of social slaveries to the end of time. . . ." I believe this to be no exaggeration, but the simple truth. I commend Mr. Alexander del Mar's words to your careful consideration.

Whence money derives its power is, I think, no mystery. An almost universal desire to secure possession of gold, temporarily or permanently, has given to this metal a wider and more generally understood value than many other metals possess. Its peculiar properties have rendered it specially suitable for use as currency, and all the greatest and most advanced nations in the world have based their monetary instruments on gold, and have struggled hard to secure and retain a good supply of that precious metal. But gold is, of course, not the only form or kind of money. Anything that serves as an efficient purchasing tool is money—silver, copper, paper, etc. This efficiency may be secured by the value and popularity of the commodity tendered, by legislation, or simply by the reputation of the tenderer or issuer, as in the case of State paper currencies, bank-notes, bills, and cheques. In Great Britain not one-hundredth of the paper money daily used could possibly be converted into sovereigns. Nor do the public in most cases want or expect such conversion to be made. It is sufficient for the majority of the public that a bank-note or a cheque will buy what they want, and settle for what they owe. Amongst thoroughly civilized peoples discs of gold are not essential to the monetary operations of everyday life. Unfortunately very few individuals or nations are yet thoroughly civilized, and so we are compelled to this day to combine with the highest forms of paper money the same little bits of gold and silver that did duty in early periods of human history, when mankind were first emerging from barter and barbarism.

If the sources of money power are not obscure, the reason for the exact quantity of purchasing power embodied in each ounce of the precious metals is a problem that has puzzled more minds than perhaps any other point in the science of money. Why a herring and a half should cost a penny and a half no man can say with exactitude. That the services of a Marie Lloyd or a Harry Lauder will command a hundred times the monetary reward considered adequate for the payment of a Milton or a Herbert Spencer, is one of those facts that we can only endure with silence and humility. After all, value is an affection of the human mind, and some humans' affections are, as we all know, extremely erratic. The value of money is what money will command. Its measure, as represented by the general level of the prices of commodities, services, and sensations at the present day, is the result of the haggling of ages. But everyone will agree that a measure which, instead of remaining constant, increases or diminishes from time to time is a most dangerous and unsatisfactory instrument. Now this is exactly what our present money is doing. A sovereign to-day will only purchase as much as fifteen shillings did a few years ago. Moreover, the purchasing power of money is diminishing each year. For some people, for the owners and producers of the prime necessaries of life, for the bankers, merchants, transporters, and middlemen, this continuous rise in prices—the steady shrinkage in the purchasing power of the sovereign—is a most gratifying state of affairs. But for the great majority of the people—for the multitude of small wage-earners composing the bulk of the population in this country, and for the poor and needy, thirteen millions of whom in the United Kingdom live constantly on the verge of the pit—the present shrinkage in the value of the sovereign means a loss of money power that takes joy out of life, that inflicts injustices right and left; that breeds resentment and discontent, and prepares the ground for those labour troubles, strikes, and constant friction between employers and employed, of which you in the homeland are nowadays hearing so much. This is what Mr. Alexander del Mar referred to when he talked of the "perpetuation of a succession of social slaveries to the end of time." How can the poor ever be anything else but poor if the prices of the necessaries of life are constantly rising, and rising more rapidly than wages?

Why is this rise taking place? Why is the purchasing power of gold diminishing? Expert opinion tells us that the laws of supply and demand apply to gold and to money as to everything else. It is a little difficult for the average mind to grasp the possibility of there being more people with purchasing power which they wish to employ, than sellers of commodities, services, and sensations. Yet such is undoubtedly the case. The production of gold from the mines of the world has now almost reached the amazing figure of £100,000,000 per annum, and by far the largest amount ever reached in the history of the world. In addition to this, the science of banking which Scotland developed so splendidly—which London subsequently elevated to a pinnacle of perfection—and which the rest of the world is now grasping and employing in its every detail, enables the bankers to erect a constantly increasing volume of credit money power on a smaller and smaller gold foundation. The two combined—more gold and better banking—have resulted in the creation of unparalleled monetary facilities. Never before have such huge demands for money power (in the form of capital for new enterprises) been made. Never before have such demands been met so continuously and on such a large scale. Where it will all end, no one can say. Whilst the profits of new undertakings are augmented by the continued rise in prices, the values of all fixed interest-bearing securities, even of the highest standing, of course fall. In the meantime the grave losses suffered by all small wage earners, owing to the steady and continuous diminution in the purchasing power of money, are preparing the way for a labour crisis of a magnitude and character that may seriously cripple the industries and prosperity of Great Britain, unless those responsible for the country's welfare have the courage to grasp the problem in time.

I have now said sufficient to give you some idea of the light in which I regard money power, and also the general economic situation arising out of the present supplies of money power being somewhat in excess of the supplies of commodities and services; this last, in my opinion, being to a large extent the indirect outcome of the unparalleled volumes of new gold now flowing from the mines ot the world. I will next proceed to the problem of Money Power for India.

Believing as I do that our presence in India can only be justified on the ground that it is to the general advantage of the peoples of India as a whole, I feel strongly that we must, as heretofore, continue to give freely of our best to India in every department of human activity. This includes the equipment of India with the best conceivable monetary system and machinery. It seems to me that there can be little question as to which system and which machinery is the best. Whilst nobody imagines for a moment that the monetary tools in use in this country express the highest conceivable phase of monetary development, the fact remains that the open gold mint system of Great Britain, supplemented by a State paper currency and good banking facilities, represents the furthest stage in monetary progress to which the most advanced sections of civilized mankind have yet attained. Here, then, we have the forms of monetary power which, I submit, we ought at once to establish in India—an open gold mint, a full-value gold currency, and the best possible banking machinery. A good State paper currency India already enjoys—a fact which places India in advance of the United Kingdom, so far as one department of monetary development is concerned. Why, you will ask, does India lack the other sources of money power—an automatic State money manufactory, metallic tools of the best description and quality, and a banking machinery that includes and utilizes the vast accumulations of money power—reserves and cash balances running up to £90,000,000—held by India's Government in India and in London?

It is difficult to find satisfactory replies to these questions. India *did* employ metallic tools of gold till we demonetized them sixty years ago. So, too, India *did* enjoy the advantages of an open State money manufactory till we closed it twenty years ago. As for the employment in India of the great accumulations of money power lying idle at the Government Treasuries, nobody seems to have bothered about this matter till comparatively recently, when the India Office transferred £30,000,000 or so of cash to London, where most of the money has been invested in British and Colonial securities, and lent out to London financiers. Although there is a certain risk in putting so many of India's eggs into the London basket, the interest earned, small as it is, is better than nothing. Whether India's money power cannot be better employed in India, for the benefit of Indian trade and industry, is one of the matters now receiving the attention of a Royal Commission on Indian currency and finance.

I must explain briefly why we demonetized India's gold currency, and why we closed India's open mints. It is a strange story. A hundred years ago gold mohurs and gold pagodas were in use in many parts of India. Madras enjoyed a gold standard as well as a gold currency, and her pagodas were accepted in Ceylon, Mauritius, the Cape of Good Hope, St. Helena, and other places. Indeed, at one time—in 1800—they were made legal tender in New South Wales. Silver rupees were also current in most parts of India. The East India Company, when endeavouring to establish one uniform currency for the whole of India, came to the conclusion that the best course would be to make a silver rupee the principal monetary tool and standard for the whole country. At the same time the Board stated explicitly that it was not their intention to exclude the use of the gold coins then current; and their Proclamation of January 13, 1841, instructed the Treasuries freely to receive all gold mohurs tendered. Then came the wonderful gold discoveries in California and Australia. The world's output of gold doubled and trebled till, in the year 1852, over £30,000,000 was unearthed. The value of gold steadily diminished (just as it is doing at the present day), and some authorities, alarmed by the stories of fabulously large gold deposits that were reaching Europe from America, believed that gold would soon become as common and as cheap as tin. We can feel little surprise that the Government took alarm. On December 25, 1852, a Notification was issued declaring that on and after January 1, 1853, . . . "no gold coins would be received on account of payments due, or in any way to be made to the Government in any public treasury within the territories of the East India Company. . . ." It was in vain that the Bombay Association (representing the Chambers of Commerce of Bengal, Bombay, and Madras) memorialized the Government of India in 1864 for a gold currency for India—in vain that the Bank of Bengal, in 1865, urged that the British sovereign and half-sovereign might . . . "with safety and advantage be declared legal tender in India at the respective rates of ten and five rupees. . . ." The Secretary of State was adamant. On May 17, 1865, the India Office wrote that it did not see that any practical advantage would attend the proposal to admit British gold to legal tender in India, and gold money as currency in India was from that date entirely deleted from the official mind, both in London and in India.

Alas for human wisdom! Within ten years of this time the Government of India began to wish that gold had not been so completely debarred from the Indian currency. In 1878 they openly expressed their desire to . . . "adopt a gold standard whilst retaining the present silver currency. . . ." From that time onwards the divergence in the relative values of the precious metals was a source of constant anxiety, till in 1890 the financial position of the Government and Secretary of State for India became one continuous nightmare. By 1893 the position was intolerable to the Government, and it was at length decided to close the Indian mints forthwith to the free coinage of silver, and to move thenceforward in the direction of a gold currency and a gold standard for India. The decision aroused a storm of criticism at the time from many currency reformers, myself included; but subsequent unforeseen events —the discovery of the richest gold-mines in the world in South Africa, and the invention of the cyanide process of gold extraction—have crowned the Indian currency legislation of 1893 with unexpected success. Western and Northern India are now freely using gold money in their daily business just as Madras and Southern India did two or three generations ago.

But now another difficulty has arisen. The decisions of 1893 and 1908 to restore a gold standard and currency to India have met with continuous opposition in certain quarters. Notwithstanding that the supplies of gold from the world's mines have now reached the highest figures on record in the world's history, and over three times the output of the Californian and Australian mines sixty years ago—resulting in unparalleled profits to most financiers, bankers, producers, transporters, and middlemen—certain interests in London, and the representatives of those interests in India, have lifted up their voices against the equipment of India with the best metallic monetary tools known to mankind. The Bengal Chamber of Commerce, who in 1864, when India was not nearly so wealthy as she is at present, memorialized the Government of India for a gold currency for India, now consider gold coins for daily use in India quite unnecessary. The Bank of Bengal, who, in 1865, urged that sovereigns be made legal tender in India, now asserts that a gold currency is "not required in India, and is a wasteful and expensive luxury." Even in Madras, where a gold currency and standard existed for many years, some people now seem to think that gold coins are quite superfluous, and that if the public will accept over-valued and cumbersome silver tokens, why give them anything better? (This is the view of Mr. Hunter of the Bank of Madras.) In London the campaign has been carried on with much spirit. Some of the leading financial papers have solemnly assured their readers that India is much too poverty-stricken to be able to use gold. The *Statist*, indeed, went so far as to assert that India was "one of the poorest portions of the whole earth." Messrs. Samuel Montagu and Co., the eminent bankers and bullion dealers, with a sublime disregard for historical fact, boldly informed the world . . . "that it must be remembered that from ancient times silver rupees have been the only coins familiar to the varied and populous nations of India . . .," and they solemnly discussed the desirability of checking any newly acquired taste for gold money that the peoples of India might now be developing by the imposition of an import duty in India on the precious yellow metal!

That there must be some reason—possibly some good reason—for all this strenuous opposition to the equipment of India with first-class metallic monetary tools goes without saying. In the effort to discover this reason I have perused every newspaper that I could lay hands upon, studied the reports of learned societies, and discussed the matter with college professors and practical financiers. I find that the theoretical objection is this: It is quite unnecessary to use such a valuable metal as gold for *internal* currency purposes; gold is nowadays only essential for *external* payments—for the adjustment of international trade balances. And as the adjustment of India's balance of trade is carried out mainly in London, India ought to keep whatever gold she requires to back up her silver token currency in London, not in India. Which being so, the opening of the Indian mints to the free coinage of gold is quite unnecessary.

As an exposition of pure theory this argument is unanswerable. The only thing to be said in reply is that the argument applies with equal force to South Africa, to Canada, to Great Britain itself, and, indeed, to many other countries. There can be little doubt that sovereigns, or any gold coins of a similar value, are not altogether suitable to the poverty of the great mass of the populations of many nations; that it is wasteful and extravagant for *any* country to use gold coins as *internal* currency when silver and paper money might serve equally well; that gold is only really needed for *external* payments; that the adjustment of many of these payments is carried out in London; that the self-governing colonies and many foreign nations would find it more economical to keep their gold for the settlement of their external indebtedness in London, and to draw on a London banker in favour of their creditors whenever necessary; that the maintenance of open gold mints in Canada, Australia, and, in fact, in any country that can make use of sovereigns, is in such circumstances wasteful to the locality or country concerned; that it would be cheaper for all such localities and countries to send their gold to England to be coined (at the expense of the British public), and paid into the Bank of England or any other London banker for international use whenever gold was needed for transfer from one nation to another. In short, if all parts of the Empire and all nations banked in London and settled all their international balances of trade by drafts on London, a great economy in the use of gold could be effected by London's bankers of considerable pecuniary advantage to all concerned.

The truth of this line of argument is beyond question. And yet this ideal state of affairs has not yet come to pass. True, most countries have banking accounts in London for the adjustment of minor outstandings, but none of them—not even Canada or Australia—dreams of abolishing its own mint and gold currencies. Such is the deficiency of human reason—such is the distrust with which civilized nations regard each other and the less advanced members of their own nationalities, that practically every country except India has its own public money manufactory or mint, and strives to employ its own gold monetary tools. Some of the great bankers of Britain are at this moment taking counsel among themselves as to the best means of strengthening the national reserve of gold, but I have not yet heard the suggestion made that as the use of gold money in Great Britain for internal purposes is a wasteful luxury (as, of course, it is), half-crowns and two-shilling pieces should be coined by the ton, declared unlimited tender, and all the sovereigns in circulation be called in to augment the gold reserve at the Bank of England, and so provide means for meeting banks' depositors and all external demands for gold. Yet this arrangement would probably give London a gold reserve of £100,000,000 straight away. I respectfully present this idea to Sir Felix Schuster, to Professor Keynes, and to all others in this country who may think that a cumbersome and dangerously over-valued silver coinage of unlimited legal tender is good enough for the wealthiest and most populous over-sea division of the British Empire.

So much for theory. I turn now to practical financiers for an explanation as to why India should continue to be denied the restoration of her right of free coinage and the use of gold monetary weapons in her daily business transactions. One of such has told us, in the columns of the *Financial Times*, that, if India be permitted to import gold unrestrictedly from London, then Great Britain may, in an emergency, be threatened with a suspension of specie payments. The *Financial News* conveys to its readers an impression of what is going on by such head-lines as "Indian Gold Peril," and "Life Blood of the City runs Fast into India." The *Statist* has argued frequently that the use of gold coins by India would not only "enormously injure India," but would "injure the United Kingdom," and be "a very serious matter for the rest of the world." In fact, we have seen in the columns of the *Statist* an apparently genuine apprehension that the use of gold money by India may wreck the financial and economic arrangements of the entire universe. This fear I believe to be a very short-sighted one, and altogether without good foundation, but its existence in more quarters than one—and I know several such—is unquestionable. It explains why nearly all the Calcutta, Madras, and Bombay representatives of English banking interests are now opposed to the introduction of a gold currency into India. It explains why some of the leading Chambers of Commerce in India no longer think that gold monetary tools are suitable or necessary for India. It finds its reflection in the official attitude of the Government of India, who, whilst willing to give the public sovereigns if desired, and so long as there may be sovereigns in the Treasuries, have latterly refrained from taking any active steps to encourage the people in the use of gold. And it has been traceable in the recent activities of the Financial Department of the India Office, which has transferred from India to London between £30,000,000 and £40,000,000 of India's reserves and surplus cash balances, thereby intercepting for the time being—much to the relief of London—the flow of gold to India to this extent in settlement of the balance of trade in India's favour.

Here, then, we have the reasons why there has been opposition to the equipment of India with the best metallic monetary tools and machinery available — apprehension lest the withdrawal of gold from London should embarrass, or diminish the profits of, certain financiers, bill and stock-brokers, bankers and traders dependent thereon, backed up by the well-intentioned arguments of theorists and amateurs who apparently see no reason why India should not build up and depend upon a type of monetary mechanism not yet accepted in practice by (though possibly ahead of the system employed in) Great Britain, the self-governing colonies, and the leading nations of the world.

No doubt there would be a great saving in expenditure if we abolished our police, our army, and our navy. Yet nobody advocates this form of economy. So, too, by doing without a gold mint and gold monetary tools in India, it would be possible for India to effect certain pecuniary savings. But I submit that such savings could only be purchased at great risk. Not until the nations of Europe have disbanded their great military organizations, not until Great Britain herself and the self-governing dominions have all given up the use of gold as currency for internal purposes would I recommend India to forego a return to gold monetary tools which she successfully employed before we demonetized them, and which helped to carry the fame of her wealth and civilization throughout the length and breadth of the then known world.

As for the fears of those who see visions of the city's "life-blood" running dry, I would earnestly ask them to study and ponder over three things—the present output of gold, the present rise in prices, and the present labour situation in the United Kingdom and elsewhere. In several places the bearings of our machinery of production are running hot. Everywhere the pinch of shrinking money power, and the resultant injustices to those commonly referred to as the labouring classes, are preparing the way for graver and more widespread labour troubles than have hitherto been experienced. The first cause of this loss of efficiency in our purchasing tools, this loss of value in the buying power of the sovereign, is beyond a doubt the enormous supplies of money now available. It is, I know, extremely difficult for the "man in the street" to realize that the law of supply and demand applies to his monetary instruments as well as to everything else in this world. Some able thinkers have recently expressed their disbelief in writing, and their books have found many sympathizers But before forming opinions I would ask all who desire to grasp this most important problem, to re-read their Adam Smith and John Stuart Mill, to follow this up by a study of the best-known modern experts, such as the late Walter

Bagehot, Mr. Alexander del Mar, Professors Francis Walker, Alfred Marshall, L. L. Price, W. T. Layton, W. J. Ashley, and others, and I venture to think that logic and facts will combine in establishing the conclusion that the unparalleled volumes of gold now flowing over the world's surface facilitate the creation of ever-increasing masses of credit money power which in its turn inflates prices, stimulates enterprise, and encourages commercial activities in a way and to a degree that may spell danger and possible disaster unless the pace be kept under most careful control.

Certain it is that the present annual output of gold has never before been approached in the world's history. Similarly indisputable is the fact that during the last ten or twelve years the United States, South America, Russia, France, Italy, and the other leading countries of the world outside India have secured *and retained* close upon £400,000,000 of the new gold. Yet we heard nothing about England's "life-blood flowing fast" to America. Why should India alone be held up to London's displeasure? As a matter of fact, Great Britain is the only country in the world that has managed to carry on with practically the same gold reserves as before. The smallness of our gold reserves is of course the measure of our advance from barbarism. At the same time, the continuous enlargement of the superstructure of credit without any known increase in its gold foundation may be attended by considerable risk, and there is now a very widespread belief that the liabilities of Government and of the banking community in the United Kingdom in the matter of deposits from the public are exceedingly large in comparison with the visible gold reserves of the country. This situation cannot be simplified by withholding gold from India, and giving her instead millions after millions of inferior silver tools on the plea that the peoples of India (not knowing any better) are not asking for gold. Yet this is the policy that some people urge, and, in effect, the policy that Government have recently been carrying out. This policy does not seem to me worthy of British rule. It is not the way to equip India with the best form of metallic money power. It is not the way to help London towards a larger gold reserve. On the contrary, by adding silver to the enormous mass of gold metallic money in existence, it directly induces further price inflation, further labour friction, further excessive demands for new capital, further excessive depreciation of gilt-edged securities—in short, all those symptoms which spell DANGER in the eyes of those who look beyond the momentary gains of the well-to-do classes of the community.

These are days of rising prices. London discounts must therefore rise with everything else (gilt-edged securities always excepted). And by openly recognizing this fact and paying the price accordingly, Great Britain can obtain and retain any gold reserve that it may think desirable, leaving India in the same position as America and the rest of the world to take whatever gold she can pay for. High discounts in London mean higher discounts elsewhere, so that British trade is not in the least likely to suffer in the long run by the changed financial conditions.

There is another consideration of the greatest importance. The providing of India with a gold mint at which her own raw gold ornaments, bars, etc., can be freely converted into sovereigns as the public may require, also with ample supplies of gold monetary tools for the use of traders and others of good standing (of whom there are probably as many in India as in the United Kingdom), and with gold reserves for internal and external use, as necessary, will be a source of great strength not only to India but also to Great Britain, and therefore to the Empire as a whole. The *Times* the other day remarked that "even Mr. Webb admitted under cross-examination that if the Gold Standard Reserve were kept in India, it would have to be sent to London when a crisis occurred." From which the *Times* appeared to deduce the conclusion that India's reserves ought always to be kept in London. But I would ask the

Times—I ask any practical London financier—which would he prefer were a financial crisis unfortunately to develop in London—India suddenly drawing on London for perhaps £5,000,000 to £8,000,000, or India shipping £5,000,000 to £8,000,000 sterling to London *in gold?* There seems to me only one answer; for whilst the former would greatly augment London's difficulties—possibly create serious danger, the other would in all probability save the situation in London, and at the same time be wholly satisfactory to India. This is one of the reasons why the holding of £30,000,000 or £40,000,000 of India's money in London appears to me altogether unsound and a danger to London's delicately balanced financial credit structure, rather than a support.

In preparing for India a scheme of additional money power, I will now assume that the desirability of (1) an open gold mint; (2) gold monetary tools in daily use; and (3) accumulations of gold money in the paper currency and gold standard reserves for internal and external use is freely recognized, and proceed forthwith to consider India's banking equipment. I have always urged that the business of indigenous banking ought to be encouraged in every way. In my "Advance, India!" published recently, I warned my Indian friends that the cash balances held by the purely Indian banks were dangerously small compared with the magnitude of the deposits received from the public. Since that warning was published, three or four of the Indian banks have run aground. It is an unfortunate mishap which everybody will deplore. I sincerely trust that the institutions concerned will not be wrecked, but that with care and courage they may be soon refloated. The matter to which it will now be well to give some consideration is the desirability or otherwise of creating a great central State Bank for India. There is no doubt that some enterprising bankers would be quite ready to take over all the Government of India's balances, reserves, paper currency, banking and exchange business, and manage all these departments on Government's behalf. Government itself is suspected of not being averse to getting some of its financial responsibilities off its shoulders. The exchange bankers, however, scent competition, and are, I believe, against the idea to a man.

The advantages of the concentration of money power in a country where individual integrity is above reproach, are obvious. The waste involved in the holding up of great volumes of a nation's money in Government treasuries is also obvious to most people. No unbiassed and well-informed spectator could doubt for one moment that a better use of the £90,000,000 of Indian treasury balances and reserves, held by the Indian Office and the Government of India, could be devised than is now actually made. Then again, the backward condition of many of the population in India in the matter of a business-like utilizing of their savings and spare cash, the insufficiency of really cheap capital at certain seasons of the year, and the scope existing for a considerably further extended use of the paper currency are all matters that might be satisfactorily handled by a great central State Bank.

The first and vital point to decide is—Who is to control the proposed Indian State Bank? This great organization with its cash resources of perhaps £100,000,000, to make no mention of Capital and Deposits from the public, would be one of the most powerful monetary forces in the world. Who is to wield this force? In Great Britain the demands of the kingly rulers and their governments in the past combined with a wide-spread ignorance and apathy on the part of the public regarding monetary science, have resulted in the supreme control of money power at length passing into the hands of a comparatively few great financiers—often of the Jewish race. These great money merchants have carried on their businesses with the utmost skill and foresight; so much so, that whilst their ingenuity and integrity have greatly benefited both Government and the public, they have at the same time succeeded in placing the leading governments of the world in quite a subordinate position so far as the control of Money Power is concerned. Now, in civilized states, Government ought, I submit, to be the chief source and controlling authority of Money Power. So successful have our bankers been in the past in relieving Government of one of its most important functions—the issue and control of Money Power—that at this moment in the United Kingdom, perhaps the most advanced country in the world in many ways, neither people nor Government have yet commenced to enjoy the advantages of a State paper currency! In the absence of such a currency, the bankers of Scotland and England have discovered and developed means of building up colossal dealings on the strength of paper promises to pay in gold (if required), not one per cent. of which promises are ever or can ever be carried out. Yet, thanks to the assistance and encouragement of the bankers, we all continue to make these promises from day to day, largely regardless of the possible dangers of the situation. To such a degree has the science of banking and credit-spinning been carried that many responsible authorities have commenced to ask themselves whether our gigantic credit structures are not beginning to get a little top-heavy. Statesmen, economists and newspapers of the highest standing have openly stated that, compared with the volume of business now transacted in the United Kingdom, Great Britain's gold reserves are inadequate. Yet no British Government has so far felt itself strong enough to interfere or to make any attempt to safeguard the public interests by controlling the activities of the great financiers and bankers in any way by legislation. Lord Goschen, Mr. Asquith, the London Chamber of Commerce, the Associated Chambers of Commerce of the United Kingdom, the *Economist*, the *Statist*, and even the *Bankers' Magazine*, have all talked; but that is all. Little or nothing has yet been done so far as the public know. The truth is that, so powerless is the Government of Great Britain to grapple with the danger, in the event of any serious crisis, local or international, arising out of the insufficiency of our gold reserves or the unexpected restriction or destruction of credit, Government would find itself compelled to act, not independently as its own position as guardian of the whole of the public interests would demand, but subserviently as the great financial and banking interests of the City of London might require. It is possible that the interests of the great mass of our people and the interests of London's cosmopolitan financiers and bankers might exactly coincide. On the other hand, it is conceivable that they might not. As things stand at present in England, Government has no choice in the matter. Government must act as Money Power dictates.

Is this the situation that we desire to work up to in India—Government nominally supreme, but the purse-strings in the control of a mixed directorate of Hindus, Muhammadans, Parsis, and Europeans, the last probably in a minority? It would be folly to shut our eyes to the direction in which we are steadily moving in India. Though the days of complete self-government on the Colonial type may be far distant, there can be no doubt that our Indian fellow-subjects under our active and whole-hearted tuition are yearly advancing in social, economic, and political efficiency, and in due course they will assuredly reap the rewards of that efficiency in every department of their activities. Bearing these facts in mind, remembering the special conditions that prevail in India—the multiplicity of interests, racial and religious, as well as economic and political, the overwhelming magnitude, numerically, of the illiterate and uninformed classes as compared with the numerical insignificance of Government's leading brains and hands, I am forced to the conclusion that it is imperative in the interests of the people of India as a whole, as well as of Government itself, and of the commercial and general interests of the United Kingdom and the Empire that the Government of India should not now relinquish one jot or tittle of its MONEY POWER, or, what is almost of equal importance in India, of the prestige that universally attaches to great MONEY POWER. Lord Mayo, when referring to Mr. Dickson's scheme of 1867 for amalgamating the three Presidency Banks, wrote to the Secretary of State for India:

> ". . . I submit that it is not for the interest of a State that a great institution of this kind should grow up for all India, the interests of which may in time be opposed to those of the public, and whose influence at any rate may overshadow that of Government itself. . . ."

Here we have words of wisdom, as sound to-day as when they were penned.

If, then, we desire India to obtain the benefits which a concentration of her currency mechanism, monetary resources, and financial machinery, under one central control in India would undoubtedly give, that central control must be exercised by Government and not by private interests amidst which Government might be more or less effectively represented. In other words, the proposed Central Bank must be a department of Government—a real STATE BANK—wherein, whilst public interests should be strongly represented, Government must exercise supreme, unfettered control. Such a State Bank might be advised by Local Financial Boards in Calcutta, Bombay, and Madras, on which private commercial and financial interests would preponderate. To such a State Bank Department it would be incumbent on Government to appoint permanent financial and banking officials of the highest calibre. Under a control of this kind an enlightened and progressive development of India's MONEY POWER would follow. The superiority as money of nickel to copper, gold to silver, and of paper to gold would, each in its place and to a proper degree, receive methodical encouragement. Every treasury and sub-treasury in the continent would become a branch of the State Bank. Depositors would be actively welcomed in every corner of the country, though not in cutting competition with private banks. It is doubtful if the State Bank would need to raise any capital as such. Government's balances, cash reserves, and other resources (paper money and deposits) could from time to time be employed to help the progress of public works (whether undertaken by Government or by Indian Rulers and governments), of agricultural banks, and of India's largest private banks and financiers, especially during periods of pressure that regularly arise when the most valuable crops are being moved. With a State Bank managed on these lines, it is doubtful if any advantage to Government or the public would accrue from the amalgamation and inclusion of the existing Presidency Banks, though this might perhaps be arranged in order to give to Government the benefits of the existing machinery and expert managing staffs. The shareholders' rights and position would, of course, have to be fully recognized. This portion of the problem, though difficult, need not be insuperable.

A State Bank of this character, undertaking the whole of India's monetary business, internal and external, whilst adding greatly to Government's power and prestige would at the same time greatly encourage the banking habit amongst India's timid millions, and would thus be a source of strength to the great masses of the people as no other institution could. The development is not likely to be received with enthusiasm by the banking community in India or England, but its inauguration need not be deferred on this account.

I have now completed my sketch of the way in which I would, did the matter rest in my hands, provide additional money power for India. The best, and nothing but the best, that would be my guiding principle. Copper and nickel tools for the poor and for small transactions; silver for the multitude; gold for the well-to-do; and paper for large transactions and for the wealthiest and most advanced classes—a State Paper Currency supplemented by every conceivable banking facility, State as well as private. No doubt the day will some day come when a majority of the public will perceive that amongst civilized nations money is after all merely a certificate of service performed, and that, granted reasonable prospects of national security and widespread honesty of dealing between man and man, there is no reason why such certificates should not for the most part be recorded on paper instead of on little discs of gold and silver. Such paper would not require to be supported by tons of metal, because no rational being would need the metal. The fact that the certificates bore the impress and signature of Government *testifying that they represented work performed for the State in the general good*, would be sufficient in a rational and law-abiding community to secure their widespread acceptance and circulation. It would be necessary strictly to limit the State work against which such monetary certificates were issued, to public schemes of a material and permanent character, and to state on the face of the certificate the exact locality and nature of the capital work represented by the certificates.

Thus, Government are about to construct, let us assume, a new canal or a new railway of undoubted public worth and permanent value. Instead of borrowing two or three millions sterling or more for the purpose (upon which the State would have to pay interest), there is no reason why two or three millions of State paper currency should not be issued to pay for the cost of the work. These notes (one sovereign bearer debenture bonds, let us say) would not promise to give the holder so many grains of gold thirty or forty or fifty years hence, but would certify that they represented the So-and-So State Canal or State Railway, and that they were legal tender throughout India to and by the Government and the public in settlement of legal debt. Their inscription might be: PAY TO THE BEARER THE EQUIVALENT OF THE SERVICE RENDERED TO THE STATE BY THE FIRST HOLDER OF THIS NOTE, CERTIFIED AND REGISTERED HEREBY, ONE SOVEREIGN.

Orthodox bankers of conservative instincts will, of course, shudder at this suggestion of an inconvertible currency, even be the amount ever so limited. But the Government of India (who, by their enlightened policy of recognizing the shrinkage in money power in India and compensating their servants accordingly, have placed themselves in the forefront of all civilized Governments), are already on the road of scientific monetary progress in this direction. By basing ten millions sterling of their present paper currency on their own paper securities instead of directly on gold or silver, they have taken the first step. It is only one step more, and a very short one, to continue the issue of paper currency based directly on, say, State railways, instead of on the promissory notes by aid of which the State railways have been constructed. When next the purchasing power of India's money shows signs of increasing—it is dwindling rapidly at present—then will be the moment to launch the first issue of the new rational State money. May the happy moment be not long deferred.

I trust that I have now made it quite clear why, in the hope of providing more MONEY POWER for India, and, at the same time, easing the unmerited labour hardships in India and the United Kingdom caused by constantly rising prices, I advocate gold coins and an open gold mint for India. Further, I am in favour of a State concentration in India, on business lines, of India's cash balances and monetary reserves, a large part of whose value is now dissipated by the employment of methods and practices long out of date. The development of India's paper currency in the direction that I have just outlined is a matter for the future. The world will soon be civilized and enlightened enough to attempt these things. It is even possible that India may lead the way.

BY THE SAME AUTHOR

INDIA AND THE EMPIRE

A CONSIDERATION OF THE TARIFF PROBLEM

WITH AN INTRODUCTION BY

SIR EDWARD LAW, K.C.M.G., K.C.S.I.

Late Finance Minister of the Government of India.

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