

the extra taxation which met the difficulty. But, in fact, those deficits should not, according to the ordinary methods of finance practised in European countries, have appeared in the Budget at all. They arose solely and directly out of the war expenditure, and disappeared with the cessation of the war. The reduction of the army to a peace establishment did not, indeed, follow immediately upon the termination of hostilities, for political considerations required that the country should be held in strength after it had been to appearance pacified. But the reduction was carried out so soon as it could be made with safety, and when accomplished the deficit disappeared. Now no European nation, in modern times, attempts to carry on war out of revenue. The burden of taxation may be increased for the time, to cover a part of the expenditure; but the specific proportion of the whole charge to be provided for in this way having been determined on, only this amount is shown in the Budget, and the rest is provided for by loans. There is no reason why Indian wars should be dealt with differently; and if the same course had been followed, the only thing noticeable during the mutiny epoch about the Indian finances would have been their flourishing condition. As it was, however, the whole war expenditure was shown on one side of the account; and, in place of borrowing definitively the sum required to cover the deficiency, an open loan was established, at a fixed rate of interest, the yield to be obtained from which was of course matter of complete uncertainty. The open loan, under the conditions attached to it, proved insufficient; hence a sudden deficiency of money, and the resulting panic.

but to insufficient provision for war expenditure.

The so-called financial crisis was not, however, without its uses. In the first place, the supposed necessity for economy led to a much more stringent reduction of the army than would probably have otherwise taken place. It cannot now be said that the public resources are undergoing any waste in maintaining a needlessly large

Advantages resulting from view taken of Indian finances in 1859:

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reduction
of army;reform of
Indian ac-
counts.

military force—a fortunate condition for any country in these days, and especially desirable in India, since every European in excess of what is absolutely required, retained in the enforced idleness of a soldier's career in a tropical climate, represents a needless expenditure of life and national power. The native army, everyone will admit, cannot be kept on too low a scale in peace-time, consistent with its performance of the work required. This important object was very completely attained in 1861,* for, although further reductions are now proposed, the propriety of making them is at least open to question, and it cannot be decidedly pronounced that the existing military force is larger than necessary. Another very important gain has been that the Indian finances have come to occupy their proper share of attention. Finance is now recognised to be in India, as well as elsewhere, one of the most important branches of administrative business; and with a distinct allocation of responsibility comes improved practice. This had always been a weak part of the Company's administration; while their system of account, though it may have been adapted to the wants of their mercantile establishments, had become to the last degree cumbrous and dilatory, and was utterly unfitted to the wants and circumstances of present times. Here then was a large sphere of action for a finance minister. A good system of account may not prevent bad finance, but good finance is impossible without a good system of account. And it is in this direction that progress has been made. Of finance in the shape of a redistribution or augmentation of the public burdens there has been little, the final result of what has been done of late years having been to leave matters pretty much as they were; but a reform of extreme importance has been made in the introduction of a methodical system of public account. Of

* I refer to numbers only. The Indian army is now organised on an extraordinarily expensive footing as regards the system of promoting officers, but with that the Indian Government has had little to do.

such a task, the beginning made by Mr. Wilson was worthy of his high reputation; the work was carried on in the same spirit during the brief incumbency of his successor, while Sir C. Trevelyan's tenure of office was marked by a great advance in the same direction. Nor should any standard in this matter, short of the highest, be aimed at in India; for the circumstances of that country, where the Government is absolute, yet works under supervision—which is free from the complications which attend the parliamentary system, and from the delays occasioned by distant colonial establishments—are most favourable for the maintenance of precision and punctuality in recording the public receipts and expenditure. The Indian accounts ought to be the best in the world.

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The stringent military reductions carried out in 1861, combined with a rapidly improving revenue and the proceeds of the small additional taxation which had been imposed, sufficed to bring about a financial equilibrium. The account for the year 1861-62 showed a deficit of only a few thousand pounds, and the next four years gave a moderate surplus. But in 1866-67 there was a deficit of $2\frac{1}{2}$ millions, and the balance has been on the wrong side ever since. The deficit of 1868-69 was $2\frac{3}{4}$ millions; that for 1869-70 was 600,000*l.*, and in consequence a very gloomy view of the financial condition of the country is not unnaturally held in many quarters. Before offering an opinion as to how far this is really justified by the facts, it should be explained that this excess of expenditure over income is due to two causes. There has been a temporary check during the last five years in that gradual but rapid expansion of the Indian revenue which is its normal condition, due in part apparently to the general stagnation of European trade since 1866, and certainly to a succession of bad harvests in India, but also to a considerable fall in the price of opium; while no sufficient check has been placed on that tendency which the charges in all branches of the service

Deficits
of recent
years.

Their
causes.

show equally with the revenue to constant increase. The last few years have been characterised by a manifestation of extreme zeal for administrative reorganisation and improvement, resulting in decided administrative extravagance. The time has been prolific in 'revisions' of establishments in all the public departments, involving in every case a considerable increase of charge. Many of these, such as the reorganisation of the subordinate judicial service, undoubtedly constitute administrative reforms of great value which were urgently needed; but both these and others which were less pressing were carried out on grounds of administrative expediency, without reference in most cases to the ways and means of the year, or due provision being first made in the annual estimates for the resulting increased expenditure. Meanwhile the outlay on public works has been steadily increasing year by year, having risen from four millions in 1860-61 to nearly seven millions in 1868-69, exclusive of that charged to loans. Indeed this item alone accounts for the deficit; for had the outlay on public works remained at a constant rate, all the other items of increased expenditure might have been incurred and still left a surplus. A certain part of the so-called public works outlay is indeed obligatory, and a large part of it is required to meet pressing wants; but there remained a considerable margin for reduction had it been thought necessary, and these large grants were undoubtedly made only because it was supposed they could be afforded. For the peculiarity of these late deficits is that they have in each case been unexpected. The estimates have been framed to show a surplus, but the accounts have closed with a balance on the wrong side. This has been partly due to defective estimates in the first instance, but still more to the inconsiderate way in which it has been the fashion to sanction extra expenditure during the course of the year. What in fact has occurred has been bad financial management, not a bad state of the finances.

These facts sufficiently explain that however unsatisfactory the late deficits may have been, there is really nothing in the state of the Indian finances to cause serious anxiety. A country which can afford to spend five millions a year on public works out of its revenue, cannot be regarded as in a bad financial condition because it spends an additional couple of millions in excess of the revenue, more especially when it is considered that many of the objects on which public works outlay is incurred might, without straining the term, be fairly viewed as capital expenditure and defrayed from loans. Such is the large outlay now taking place on the new barracks in course of construction all over the country, which are estimated to cost ten millions, and which being in the nature of a permanent work which will be completed within a definite time, and will not require renewal, might without impropriety have been constructed with borrowed money after the precedent afforded by the English fortifications. The balance of reasons seems certainly to be in favour of not doing so, because although this particular charge is not likely to recur, each year may be expected to bring its own peculiar burden in some shape or other, and it would be scarcely prudent for a government situated like that of India to borrow money in a time of peace for an unremunerative object. Similarly with regard to roads, which although unquestionably remunerative, are only indirectly so, it has been determined not to undertake them from loan funds, and they have therefore been charged to the revenues of the year. But when the reasons for and against admitting the incidence of a charge in this way are so nicely balanced, it cannot be said the deficit is of a serious character which is due to this class of expenditure, since it might have been provided from loans without any sensible impropriety, and then the deficit would have disappeared. The mistake made has been in first affirming the opposite principle and then virtually acting upon this one; for since deficits

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How far
indicative
of unsound
financial
state.

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measures.

must sooner or later be covered by loans, these works in effect have been constructed by those means, although such a result was not intended.

As to the remedial measures needed for restoring a financial equilibrium, there is in the first place considerable room for retrenchment in public works expenditure. Even with respect to that part which is applied to what are regarded as obligatory services, namely the construction and maintenance of the buildings required for the various public departments, the liberality with which the constantly expanding grants have been supplied has naturally led to a more expensive style of building than formerly sufficed, and to new demands often in excess of what is reasonable. Even in those parts of India where this tendency has not been manifested, there will always be room for at any rate some temporary restriction of expenditure. Improved court-houses and substantial police-barracks may be desirable from an administrative point of view, but works of this class can always be deferred for a season without serious inconvenience, while all experience shows that this is a kind of expenditure which cannot be regulated by any supposed standard of ultimate completeness; that the wants are practically illimitable and grow with increased outlay, and that the only practical way of dealing with the case is to limit the expenditure by the income available. As to roads, which form the other great branch of outlay, the considerations offered in my nineteenth chapter will show that no practicable expansion of the imperial grants would suffice to supply what is needed for their extension, and that the only way of meeting the wants of the country in this respect is by distributing the burden over the different provinces, to be borne by local resources. The effect of this will be to reduce the annual grant for public works (exclusive of the great expenditure from loans on railways and canals) to what it was a few years ago, about four millions. If it be kept down at this figure, and if a

check, be placed for a season on that expansion of public establishments in all departments which is such a striking feature of recent administration, the growth of revenue will speedily bring about an equilibrium. The Indian Government has, in fact, been anticipating its means, certainly with the most praiseworthy motives, but still beyond what is prudent. And to put a stop to these deficits heroic remedies are not needed, but simply that the public expenditure should be kept down temporarily until it is overtaken by the revenue, instead of being suffered continually to expand a little in advance of it. The yearly expenditure has increased by nine millions in nine years. If this increase had been spread over twelve years, the financial difficulty would not have arisen.

How far this expansion of revenue on which so much stress has been laid can be relied on, may be inferred from the following figures:—

Rapid expansion of
Indian
revenue.

Year ending	Revenue
April	£
1800	10,485,050
1810	15,655,985
1820	19,230,462
1830	21,605,208
1840	20,124,038
1845	23,666,246
1850	27,522,344
1855	29,024,671
1860	39,602,850
1865	45,395,384
March*	
1870	50,025,308

During the last thirty years the revenue has increased on the average at the rate of a million a year. A part of the increase is due to increase of territory, a part to increase of taxation, and a part is merely nominal, having arisen from the substitution of gross receipts and charges in place of net receipts in some branches of the public

* In 1867, the beginning of the financial year was altered from end of April to end of March.

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development
of customs.

accounts; but the main causes of the increase in late years are increased commerce and national wealth, while it may reasonably be expected that the advance will become still more rapid as the means of communication and trade throughout the country are more fully developed. The decline in the price of opium is certainly ominous, but it would be idle to pursue any speculations on this point, for were this great source of revenue to fail, measures would be needed to replace it of a kind which could not be undertaken except under so great an emergency, and which therefore need not be discussed in connection with present probabilities. On the other hand, the revenue from the customs is now only $2\frac{1}{2}$ millions sterling, a perfectly insignificant amount to be collected from nearly 200 millions of people. It seems impossible but that, as the prosperity of the country advances, the improved condition of all classes should not before long be reflected in an increased demand for European products; and if once this want is acquired, a development of the hitherto almost stagnant customs revenue may be looked for, such as will bring it up to an appropriate place in the Indian Budget, more resembling what it occupies in the finance of European nations. Should this change take place, the Indian revenues would probably then increase at a rate far exceeding what has occurred hitherto; but, even at present progress, they would amount in twenty years to seventy millions sterling, or nearly as much as the present revenues of Great Britain.

The re-
venue from
land.

But the main item of Indian revenue is derived from the land, and it is from this source that the largest increase is to be expected. In Bengal, indeed, the demand of the Government as landlord has been fixed in perpetuity, and as the rent is payable in money, the burden on the renters has been in effect very largely reduced since the assessment was made, owing to the great fall in the value of money since that time with respect to the

produce of land. But in the rest of India* the assessments are made for terms of from one to thirty years, and there appears no reason why these assessments should not keep pace with the increase in the value of the land and its produce. There is not wanting, indeed, a considerable body of Indian statesmen who advocate the extension of the perpetual settlement to the rest of the country, urging that the fixity of tenure thus created, by increasing the value of the land, and encouraging the investment of capital by the landholders in the improvement of their estates, would indirectly more than compensate the Government for the prospective gain in land revenue surrendered, since a great impulse would thus be given to the production of wealth throughout the community. And it is singular to remark that this theory, which, whatever might have been the chance of indirect benefit offered by its adoption, would have cut off a certain source of increased revenue, was most in favour at the time when the Government was in its greatest financial difficulties, and was seeking in every direction to find new objects for taxation. It was in vain that the opponents of this plan contended that the facts did not bear out the theory, and that the permanently settled country afforded no sign of a more vigorous application of capital or a more advanced agriculture than the other parts of India, but that on the contrary it was conspicuous for the indebtedness of the landlords, and their general indifference to the improvement of their property. The famine of 1861 happened while the discussion was at its height, and was gravely adduced as proof of the superiority of perpetual settlements, because it so happened that those districts which suffered from it were held on temporary leases. And the advocates of the former system of tenure would probably have carried the day if the still more awful disaster of 1866 had not demonstrated that starvation comes

* A part of the North-western Provinces also is subject to the perpetual settlement.

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from want of food, and not from the absence of a perpetual settlement. Latterly a great change has come over public sentiment in this matter, and there would now appear to be a general agreement of opinion that the State should not surrender its share of the increase in value of this great item of the national wealth, while it appears also to be generally agreed that the objections to temporary settlements, and the uncertainty which they attach to the tenure of land, would be satisfactorily overcome by fixing in perpetuity the *share* in the produce of the land which should be taken as rent by the State, while the amount to be paid for that share should be determined from time to time by the price of that produce.

Prosperous
state of
Indian
finances.

Such, then, is the financial position of India. With a revenue second only to those of the three greatest countries of Europe,* and a comparatively light debt, it is able to undertake obligations of a kind unknown to any other State, without any excessive strain on its resources. A government by foreigners is costly in some respects, but, as a set-off, India is not called upon to support a navy, and an army exceptionally small in comparison with the size of the country and population suffices for its defence. New obligations may arise; but immediate relief can be obtained to the finances, at any time, by a redistribution of the charges for public works; while, should the necessity arise, it is impossible but that a country which, if comparatively poor, is yet taxed in an extraordinarily light degree, should not be able under proper financial management to afford new sources of revenue. The satisfactory determination of this point probably awaits a transference of the duty of raising revenue to the provincial governments. On the whole it may be said that

* Revenue of France	£79 millions.
„ Great Britain	75 „
„ Russia	57 „
„ India	48 „

if the financial state of India is one of present embarrassment, this is due to a merely passing difficulty arising from temporary and easily preventible causes, and that in reality the finances of that country are readily capable under good management of being placed in a thoroughly sound and prosperous condition.

REVENUES AND EXPENDITURE OF INDIA.

Revenues	1868-69	1869-70	1870-71 Estimate	Expenditure	1868-69	1869-70	1870-71 Estimate*
	£	£	£		£	£	£
Land Revenue	20,246,575	21,537,278	21,023,632	Interest on Public Debt	6,208,476	6,123,841	6,214,540
Tributes	687,363	765,143	737,073	Land Revenue and Forest	2,745,972	2,780,144	2,935,152
Forest	407,342	476,090	588,780	Customs, Excise, Salt, Opium, Stamps, and Assessed Taxes	2,696,611	2,838,452	3,117,800
Excise	2,283,736	2,245,700	2,285,000	Mint, Post Office, and Telegraph	1,493,360	1,373,129	1,415,210
Assessed Taxes	508,700	1,051,600	2,180,000	Law and Justice	2,845,447	2,885,840	3,064,538
Customs	2,692,755	2,416,500	2,416,500	Civil Services	2,172,519	2,273,782	2,313,217
Salt	5,588,240	5,842,350	6,177,370	Police	2,476,580	2,440,900	2,319,964
Opium	8,453,365	7,953,800	6,922,281	Education	599,858	614,032	680,530
Stamps and Court Fees	3,201,827	3,146,700	3,234,800	Stationery and Printing	397,704	362,600	344,250
Mint, Post Office, and Telegraphs	1,176,077	1,110,417	1,083,616	Political Agencies	349,855	422,880	313,675
Police	277,237	265,960	251,966	Allowances under Treaties	1,778,358	1,892,850	1,787,090
Education, Interest, and Miscellaneous	1,609,063	1,845,980	1,181,769	Miscellaneous	831,083	1,033,863	985,192
Army and Marine	1,821,108	1,214,290	1,001,840	Pensions	1,669,968	1,249,572	1,376,253
Public Works	224,653	156,500	117,870	Army and Marine	17,410,211	17,742,001	16,529,441
Railway Traffic Receipts	2,479,617	2,914,174	3,125,258	Public Works	6,272,334	5,040,395	3,998,400
				Railways, principally Interest on Guaranteed Capital of Lines	4,483,352	4,493,795	4,769,063
Total	51,657,658	*52,942,482	52,327,755	Total	54,431,688	53,568,076	52,164,816
Deficit, excluding Public Works Extraordinary	2,774,030	625,594		Public Works Extraordinary (State Railways and Irrigation Works)	1,370,613	2,616,748	3,062,300
				Grand total	55,802,301	56,184,819	55,226,615
Deficit, including Public Works Extraordinary	4,144,643	3,242,337	2,898,860	Surplus, excluding Public Works Extraordinary			163,440

* The amount shown at page 451 as the revenue for 1869-70 is less than this by 2,914,174L, the amount of the railway traffic receipts, which have been brought into the public accounts for the first time during the present year (1870).

CHAPTER XXIII.

THE INDIAN CURRENCY.

THE standard coin of British India is the Rupee, a silver piece, containing eleven parts of pure metal and one part of alloy. It weighs 180 grains troy; its value is nearly one-tenth of a pound sterling. Half, quarter, and half-quarter rupees are also circulated, and the silver money is supplemented by a copper coinage. The rupee is also the unit of weight: 180 grains troy make one tola, and 80 tolas one seer, which is the standard weight of British India.*

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Standard
coin of
India, the
rupee.

The great production of gold during late years has naturally given rise to proposals, that the example set by France, the United States, and other countries, should be followed in India, either by the substitution of a gold for a silver standard, or the introduction of a supplementary gold coinage. These proposals first assumed a definite shape shortly after the mutiny, simultaneously with a great development of trade in India, but did not at that time find favour with the Government. The late Mr. Wilson, who had then charge of the financial business of the administration, argued that, inasmuch as the price of gold was falling relatively to the price of silver, it would be a breach of faith with the public creditors to replace the silver standard of money by one of gold. The State, said Mr. Wilson, having contracted a debt of a certain

Proposals
made in
1860 for a
gold coin-
age.

Mr. Wil-
son's ob-
jections
to the
measure;

* By an Act lately passed (1870) the weight of the standard seer (or ser) has been slightly altered, and made to correspond with that of the kilogramme.

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valid.

amount of silver, cannot convert that obligation into one of its present equivalent in gold, because, since the value of gold tends to fall with respect to silver, the creditor would probably be mulct a certain portion of his debt when it came to be repaid. From which it was to be inferred that, in the interests of public morality, India must be condemned to maintain her silver money, even to the end of time, so long as the relative value of the two metals tends in the same direction as at present. But this objection does not appear to be conclusive against making the change, because it would manifestly be practicable to couple with it a condition, that any ascertained loss, due to the fall of gold, should be made good to the public creditor at the time of his debt being repaid. But, in fact, the Government does not usually undertake an obligation to repay its creditors in any form. All that it undertakes to do, in most cases, is to pay them the interest on its debts. And, as regards the coin in which that interest is payable, there is no guarantee that the interest shall be always worth, absolutely, what it was at the time when the debt was contracted. That interest is, no doubt, under existing agreements, payable in silver; but it is more likely that the value of silver should fall, with respect to commodities generally, than that gold should fall with respect to silver; at any rate the creditor's loss from the former cause is likely to be much greater than what would arise from the variations in value of the two metals. When, moreover, we bear in mind the fluctuations constantly taking place in the saleable value of government securities, from various causes; that the depreciation due to a decline in the value of gold would, probably, be quite inconsiderable compared with what is frequently occasioned by political events; and that the public creditor buys his share of the government debt with a full understanding of the risks to which the property itself (and not merely the interest on it) is subject,—the insistence on a

State obligation to pay silver instead of gold, because the original debt was incurred in the former, would appear to savour of over-refinement, and to be supported on a verbal rather than a real foundation. If it is not competent to the Government, in the public interest, to substitute a gold for a silver standard, because the change might possibly cause a small depreciation eventually in government securities, it should be equally incumbent on the Government not to undertake any measure which would have the effect of sending down the price of stocks.

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However this may be, the idea of introducing a gold coinage has not been abandoned, and various plans for the purpose have been lately under the consideration of the Indian Government. One of these, proposed by Sir Charles Trevelyan, during his tenure of office as Financial Member of the Governor-General's Council, was simply that the English sovereign should be made a legal tender for ten rupees. The scheme was not a very promising one, inasmuch as that, at the time when it was brought forward (1864), the sovereign was saleable throughout India at from $10\frac{1}{2}$ to $10\frac{1}{4}$ rupees, although the price of silver was then exceptionally high, owing apparently to the great demand for the metal in Europe to remit to India for the purchase of cotton. The Secretary of State accordingly declined to sanction this proposal, on the score that it would be inexpedient to enact a law which would probably be quite inoperative, but he agreed that sovereigns should be received at all Indian treasuries in payment of claims due to the Government, at the rate of 10 rupees each. This rate has recently been raised to $10\frac{1}{4}$ rupees, but as the sovereign also has risen in price the measure has had no practical result.

Sir C. Trevelyan's proposal to make the sovereign current at 10 rupees.

Another plan proposed for monetizing the sovereign in India, is to reduce, or stop altogether, the coinage of silver at the Indian mints. It is expected, by the advocates of this plan, that gold would thus be necessarily

Proposal to force the sovereign into currency by restricting

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coinage of
silver.

sent instead of silver to India to be coined, as the only available means of remittance; and that silver coin, becoming scarce, would eventually attain to a higher than its natural value with respect to gold, which would enable the sovereign to become current at the rate of ten rupees. That such a restriction might eventually have the desired effect seems possible, provided that the course of trade continues to require the shipment of specie to the East; but it seems clear that the effect would be produced at the cost of enhancing the value of the existing silver currency. A sovereign is now exchangeable in India for about $10\frac{2}{3}$ rupees, and were the coinage of silver to continue unrestricted, many years might pass before it fell sensibly below that ratio, even if it ever did so; if, then, by restricting the coinage of silver, the sovereign is forced into an equality with ten silver rupees, it will really be the price of silver coin which is raised, and not the value of gold which is lowered. The rupee would, in fact, have come to occupy the same position as the shilling in England, and would constitute a token coinage, circulating at a greater value in its coined form than the uncoined metal possesses. Considering however the enormous amount of the silver currency now in circulation, such an effect is not likely to be produced within any reasonable limit of time, and the scheme does not appear to be recommended on practical any more than on moral considerations.

Third proposed plan, introduction of a gold coin worth 10 rupees.

A third proposal which has been advanced on this head affords at first sight more promise of producing a practical result. The advocates of this plan, accepting the fact that the sovereign cannot be equalised with the value of ten rupees, except by arbitrary legislation, give up, as impracticable, the idea of introducing that coin into India, and would establish instead a gold coin of the exact present value of ten rupees, making it a legal tender equally with silver throughout the country. Since gold is assumed to be gradually, but slowly, falling in

value with respect to silver, it would under this view become in course of time more profitable to the importer to send gold than silver to India; the coinage of the latter metal would gradually cease, and, as the silver coin already in the country became gradually absorbed in the process of circulation, or passed away to other countries where a silver currency was still maintained, the double standard would eventually merge in a single coinage of gold, with supplementary coins in silver and copper; and thus this important change would be carried out almost imperceptibly by a self-acting machinery, without any sensible derangement of commerce, or of the value of property.

It has to be observed, indeed, that such a measure would contain within itself the elements for retarding its own effect. If a new and extensive demand were to be created for gold, such as would arise on its admission to the currency of a great country like India, this would necessarily tend to keep up the price of gold relatively to other commodities, including silver. The same cause would tend to prevent a rise in the price of silver, one of the principal markets for that article being closed. The circumstances of the Indian currency would therefore be very different from those which attended the operation of a similar measure in France. In the latter case, the introduction of a gold currency took place simultaneously with a great demand for silver for exportation to the East. Silver was thus withdrawn from France and replaced by gold, and a gold currency was established very expeditiously in that country. But the same thing cannot happen in India. It is not likely that—at any rate for many years to come—any extensive export of the precious metals can take place, and therefore a gold currency of the kind proposed cannot be made to take the place at once of the existing silver currency. Gold may eventually be the only metal sent to the mint to be coined; but, since the existing stock of silver

Probable
retardation
of effect
from
change.

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Indefinite
character
of pro-
posal.

in India is very great, a long period must elapse, before it disappears from circulation. Indeed, the opening of this extensive new field for the employment of gold might tend to sustain, for an indefinitely long time, the existing relative values of the two metals, during which the slow but certain process of the demonetization of the silver might be disguised under the apparent existence of a double standard. Such a state of things has never occurred before in any country; but it does not follow that, under the special circumstances of the case, it would be attended with any practical inconvenience.

This proposal is open, however, to the fundamental criticism that it does not define what is the exact value of ten rupees in gold, and that the effect of the scheme must depend entirely upon this definition, and consequently upon the weight determined on for the proposed ten-rupee coin. The price of silver in Europe expressed in gold currency does not necessarily determine the price of gold in India expressed in silver currency. At the present price of silver in Europe the sovereign is intrinsically worth about $10\frac{5}{8}$ silver rupees, whereas the ordinary selling price of the sovereign in India is from $10\frac{1}{4}$ to $10\frac{3}{8}$ rupees. This depreciation is supposed to be due to the fact that gold is merely an article of commerce in India, and is not employed in that country for the purpose which elsewhere causes the principal demand for it. But there being this depreciation, it is evident the sovereign could not be forced into currency if made a legal tender in India at this depreciated value. Any sovereigns brought into circulation at this rate, say in payments made by the Government, would inevitably be at once withdrawn for transmission to other countries where the gold coinage was not depreciated. The establishment of a supplementary gold coinage at a depreciated value is manifestly a thing impracticable, and if attempted must prove quite inoperative. If, on the other hand, the gold coin were fixed on the basis of the exchangeable value of

gold and silver in Europe, that is to say, if a ten-rupee gold piece were struck such that ten and $\frac{1}{4}$ ths of them should be equal in weight to ten sovereigns, this coin would be invested with a value greater than the same quantity of uncoined gold bears in India, and could therefore only find a circulation as a token coinage, at any rate in the first instance, to be taken as a matter of convenience in small sums. Its circulation would, however, be supported were the Government to receive it in payment of all claims for revenue, and the ultimate result might be to bring the value of gold in India up to the level it occupies in other countries, when of course the gold coinage would circulate freely. On this point being reached, silver might be replaced by gold as the standard, and the substitution would have been effected without any violent or arbitrary interference with the natural value of the two metals. But the process of conversion would probably be a long one, and so many causes might arise in the meantime to disturb the relation of those values that the scheme can hardly be deemed to possess more than a speculative value. All that can be said of it is that it could not do any harm, and might prove successful.

But while the introduction of a gold currency into India is under consideration, the question naturally arises whether the opportunity should not be taken to join in the great scheme for establishing a universal currency, which has already made such considerable progress. Four European States (France, Italy, Belgium, and Switzerland) have already established their coinage on an uniform basis, the object of the convention agreed upon being that the gold and silver coinage of the four countries should be identically the same in weight, size, and value, though each country should issue money stamped with its own distinctive emblems, and even though the name of the coin should not in all cases be the same. The French 5-franc-piece has been adopted as the stan-

Plan considered for bringing the Indian coinage into unison with the proposed international currency,

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involving
alteration
in weight
and fine-
ness of
rupee.

dard, both in gold and silver; and the coinage of the other three countries has been altered to correspond, so that the money of the four countries is mutually interchangeable. There are expectations that the United States and England will join in the arrangement, when the rest of the world must follow the example. Now, then, is the favourable opportunity for India to come into the plan, while the introduction of a gold coin is being effected for the first time.

The nature of the change to be made will be readily apparent. The franc having been adopted as the unit of weight and fineness, and the value of gold coins having been taken to be $15\frac{1}{2}$ times that of silver coins of equal weight, every nation joining in the currency federation must adopt the same standard of fineness and relative value of the two metals, and must employ a coin which shall be an even multiple (or fraction) of the weight of the franc. To bring England within the federation, the sovereign must be slightly reduced in value, to make it exactly equal to twenty-five francs, so that sixteen sovereigns may contain precisely the same amount of gold as twenty napoleons. At present the former have a slight excess. To assimilate the Indian currency to the new standard would also involve an alteration of the rupee, both in weight and fineness, so that one rupee may be exactly equal to two-and-a-half francs, or eight rupees to one napoleon. The rupee contains 180 grains of metal of $\frac{11}{12}$ fineness, or 165 grains of pure silver. The 5-franc piece weighs 25 grammes, and has a fineness of $\frac{9}{10}$, therefore $2\frac{1}{2}$ francs of standard silver money* contain 11.25 grammes, or 173.614 grains troy; so that the rupee would require an addition of 8.614 grains of silver, which is equivalent to .0522—or about 5 per cent.—of its own weight. The gold currency would of course be of the same fineness and relative weight to silver as the

* The five-franc piece is the standard silver coin; the franc is merely a token.

French gold coins, and if an 8-rupee-piece were struck—to be called, let us suppose, a *victoria*—it would be identical with the napoleon in everything but the impression stamped on it, and each coin would pass freely everywhere in place of the other; while the English sovereign, if altered to the same standard, would become current in India as the equivalent of ten rupees. This proposal of course involves the assumption that silver would continue to retain its value with respect to gold. The French gold coinage being current for $15\frac{1}{2}$ times its weight of silver, the latter metal should bear a slightly greater market value, if the introduction of a gold currency is to be ensured.

This change in the Indian standard would certainly be considerable, although not so great as that carried out some years ago, when the Company's rupee was substituted for the Sicca rupee. The measure would involve the employment, for a time, of a double standard of account; it would probably be necessary that, for some years, all monetary transactions which had their origin at a date prior to the change should be expressed both in the old and new currency; and the reform would certainly be attended, at any rate in the first instance, with a considerable degree of trouble.

Difficulties
presented
by it.

A still greater objection is to be found in the inconvenient rapidity with which, if this plan proved successful, silver would be demonetized, and the loss that would occur to all creditors by establishing a standard for the value of gold coin with respect to silver coin, greater than it already possesses in the uncoined form. At the time when the French standard was adopted, of $15\frac{1}{2}$ to 1, gold bore actually a greater relative value; and it was not until it fell below that ratio that this metal gradually superseded silver as the currency of France. But were the French standard to be adopted in India, all creditors paid in gold would not only run the risk of prospective loss from a further fall of gold, but they would at once undergo

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the loss due to the fall that has occurred already. Against these inconveniences are to be set the advantage to be gained in the greater simplicity that would be thus introduced into the monetary transactions between India and European countries; but, considering the comparative isolation of India, it may be doubted whether the gain would be worth the inconvenience. The settlement of the matter, however, probably depends on the action taken by England. If the English currency is brought into harmony with the new scheme, that of India will no doubt also require to be altered. But public opinion in England, as represented by the report of the late Currency Commission, is at present opposed to the change.

Proposal
for raising
value of
silver coin-
age by
seignorage.

It should here be mentioned that a plan has been proposed* for effecting the introduction of the sovereign into India as the equivalent of ten rupees, without altering the weight of the latter, which would also be applicable in case of the sovereign being adapted to an international coinage. This is to increase the seignorage on silver coinage in India, which it might be necessary for this purpose to fix at as much as six per cent.; but although such a plan would probably have the desired effect, it seems clear that it would also have the effect of raising the value of the existing silver coinage by the same amount. The case would be analogous to that of the sudden imposition of an import duty. If, for example, a duty be placed on tea, the effect is the same, with regard to the holders of existing stocks of tea, as if they had been presented with the amount of the duty on those teas, since the price of the article rises at once to a point which will afford the usual trade profit to those who import tea, after the duty has been laid on. In the same way, if the value of the silver coinage is suddenly raised to a par with a gold coinage, by the imposition of a seignorage, the silver already in circulation is also raised

* *Remarks on a Gold Currency for India, &c.*, by Colonel J. T. Smith. London, 1868.

in value by the amount of the seignorage, and the holders of it benefit accordingly, at the expense of the general community.

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But, although, in the interest of commerce, gold recommends itself under the present state of the precious metals as the most suitable medium of currency, and the change appears to be needed, if only to restore the equilibrium between the production of silver and the demand for it which the drain of that metal to the East during late years has so greatly disturbed, it appears at least questionable, as regards the people of India generally, whether a gold currency is needed, or even desirable. At any rate, the point cannot fairly be taken for granted, as it has hitherto been customary to do when discussing the matter. For a people, the rate of whose ordinary monthly wages is less than the proposed new gold coin, and the course of whose daily transactions involves an extraordinarily minute subdivision of money (even the Indian farthing being decomposed into a number of parts), a silver standard would appear to have a great deal to recommend it. Those only who are concerned with large amounts of money find inconvenience from the bulk of a silver currency; and for these classes the difficulty may be overcome as well by a paper as by a gold currency, while, in many respects, the former is the more beneficial to the country. Accordingly, to a consideration of the Indian paper currency we now propose to turn.

Is a gold
currency
desirable
for India?

The three 'Presidency' Banks, as they are termed, established under government control at Calcutta, Madras, and Bombay, used for many years to employ a note circulation, under the terms of their charters. As these notes were, however, not a legal tender, their circulation extended only a short distance into the country, and the total amount of them never exceeded five millions sterling, a very inconsiderable sum compared with the silver coin in circulation.

Indian
paper cur-
rency.
Former
issues of
Presidency
Banks.

This was the state of things when Mr. Wilson came to

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Mr. Wilson's
scheme for
a Government
paper
currency.

India, in 1860, and unfolded his measure for a Government Paper Currency. The general features of that measure were in accordance with the principles which its author had for many years so ably advocated in the *Economist* newspaper. Mr. Wilson, it need hardly be said, belonged to the minority which is opposed to the principle of the Bank Charter Act of 1844; and, in place of the English system of issuing all notes in excess of a fixed amount against coin, he proposed that the coin to be held in reserve for the payment of the notes should vary with the paper circulation, and be not less than one-third of the latter, the remainder of the notes being protected by government securities, to be purchased and held in trust by the Currency Department. Thus, supposing the total issue of notes to be nine millions sterling, in exchange for which the same amount of coin was received, the Currency Department would not have been required to retain more than three millions of the coin as reserve; the rest would have been invested in government securities, held available to be converted into cash, should the reserve of coin fall below the required limit of one-third the amount of the paper in circulation. To that extent, therefore, the Indian debt would have been in effect reduced; and if the paper-currency became hereafter largely extended, as Mr. Wilson no doubt expected, the eventual relief to the finances would have been very great.

Currency
circles.

In view to secure the ready conversion of the note, Mr. Wilson proposed to establish no less than seventeen separate Currency Circles—grouped in three main divisions—at the office of each of which the notes would be exchanged for coin on presentation; but, in order to protect the Government from the necessity for finding cash at the outlying circles, to meet notes remitted from the seaports to the interior for the purposes of trade, as well as to guard against a run on any particular circle, it was provided that notes should not be a legal tender except

within their own circle of issue, and that payment for them could be claimed only at its local office, and at the head-office at the presidency town to which the circle office was subordinate.

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How far Mr. Wilson would have succeeded in carrying out his scheme—the development of ideas which he had advocated for many years—in face of the opposition naturally to be expected from a Secretary of State who had been always a consistent supporter of the principles embodied in the Bank Act of 1844, cannot now be told. His untimely death left the other school of economists masters of the situation; and the scheme propounded by his successor, Mr. Laing, bore no resemblance to the original plan. Mr. Laing's measure, which was in close imitation of the Act of 1844, provided that the Indian Government should be at liberty to issue notes to the extent of four millions sterling against securities—that is, that the coin received in exchange for the notes might to that extent be invested in government stock. This sum was the minimum amount of the issues of the three presidency banks, and therefore the lowest sum to which a government currency would under any circumstances be likely to fall: the coin received for all notes in excess of this limit was to be held in reserve by the Currency Commissioners. Mr. Laing further proposed to do away with the separate currency circles, or rather to reduce them to three, having their offices of issue at Calcutta, Madras, and Bombay; and to develop the note circulation through the agency of the presidency banks, which, in consideration of certain advantages accorded them, covenanted to establish branches throughout the country, where the government notes were to be cashed on presentation—the banks undertaking the expense of remitting specie up the country to meet the demands on these branches. Sir Charles Wood, however, who was then Secretary of State for India, disallowed that part of the scheme which contemplated the employment of the banks,

Mr.
Laing's
scheme.

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and required that the management of the currency should be undertaken directly by the Government. Some delay arose on this account, and at the time when Sir C. Trevelyan succeeded Mr. Laing, little had been done in the matter, beyond issuing Government notes at the presidency towns, in lieu of those withdrawn by the banks. Notes had not been made a legal tender in the interior, and the mode of providing for their circulation there was still unsettled.

Measure
actually
carried
out.

The measure finally carried out during Sir C. Trevelyan's tenure of office, and now in force, combines some features of both Mr. Wilson's and Mr. Laing's schemes. The mode of regulating the reserves of bullion and securities is the same as that proposed by the latter, but circles of issue and separate circle notes have been established. The former are plainly a necessity in so extensive a country as India. The fact that a note is payable on presentation at Calcutta will not render it current at Delhi or Lahore. To make a note readily current, the place at which coin can be obtained for it must be near at hand; and it was in this view that Mr. Wilson proposed to have a large number of comparatively small circles, which, although inconvenient in other respects, tended to secure the ready convertibility of the note. Under the arrangement actually carried out, the number of circles has been reduced to ten,* and the extent of each correspondingly increased.

Amount of
the Go-
vernment
paper
circulation

The total issues of the Government paper now amount to nearly 11 millions sterling, and at first sight there would appear to have been an advance of 6 millions beyond the paper circulation of the three banks which it replaced, which never exceeded 5 millions. But the comparison is made here between two quite different

The circulation of three of these, in Southern India, is quite insignificant, being altogether only about 150,000*l.*, so that, practically, the number of circles is reduced to seven. An additional circle has lately (1870) been opened in Berar.

things, and a considerable deduction must be made from the present circulation in order to arrive at the virtual increase. The circulation of the banks was the amount of notes actually issued to their customers. The present note circulation represents the extent of the issues from the offices of the Currency Commissioners, and includes the portion of those issues held by the banks, which has not yet passed into the hands of the public. It is true that these reserves have been received in exchange for coin; but in estimating the extent of the convenience afforded to the public by the paper currency, these reserves (which are considerable) should plainly be excluded. A very large deduction should be made, in the same way, on account of the reserve of notes held by the different Government treasuries throughout the country.

Further, it appears, from the latest returns, that of the total issues, no less than $9\frac{1}{2}$ millions belong to the presidency circles, and only about $1\frac{1}{4}$ millions to the circles in the interior, where a paper currency has been for the first time established by the Government. Now, it may fairly be presumed that the increase of note circulation at the presidency towns has been due mainly, if not entirely, to the great extension of trade which has taken place since 1861, and would have occurred to the same extent if the note circulation had remained with the banks, and they had been allowed to extend their issues to the amount found necessary. The total increase of paper circulation due to the establishment of a Government currency may therefore be deemed to be represented by the circulation in the interior of the country; and as probably at least one-half of this is held by the different district treasuries—having, in fact, been merely transferred from one department of government to another—the total amount of this increase will be not more than about three-quarters of a million.

In order to appreciate the perfect insignificance of such

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quite in-
consider-
able, com-
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silver cur-
rency, "

and the
result that
might be
expected.

Advan-
tages from
a paper
currency:
1. Conve-
nience of
trade in
exchange.

a result, we have only to consider that, during the last thirty years, the silver coinage turned out by the Indian mints has amounted to more than 176 millions sterling. It is moreover reasonable to suppose that, at the commencement of that period, the silver coin in circulation was at least 50 millions; and as the exports of bullion from India have been comparatively trifling, we may assume at least that—even allowing a large margin for the conversion which takes place of rupees into ornaments—there is not less than 150 millions sterling of silver money in India at the present time. The larger part of this sum is no doubt held by the agricultural communities spread throughout the country.

These figures, while showing how small has been the advance so far towards the introduction of paper money, serve also to indicate the degree of development which it might eventually obtain, if the measure were successfully carried out, and the notes found their way into general circulation side by side with silver. But before pointing out what appear to be the conditions needful for this object, the advantage to be derived from a large paper circulation will first be referred to.

This advantage is threefold. First, there is the advantage to be realised by the mercantile community. For the mass of the people of India it seems probable, as has been already observed, that a silver currency is sufficiently convenient. But for the general business of trade, so bulky a medium of exchange is, no doubt, very unsuitable. Before the introduction of the paper currency, drafts between Calcutta and the interior had often to bear a discount of three and four per cent., due in great measure to the cost of transmitting specie; and there was also a considerable discount on remittances in the opposite direction. This was a heavy drag on trade. Already, though the working of the currency is still in its infancy, it has had the effect of nearly equalising the inland exchanges; and although the banks have lost the

large profits they used to make thereby, the public in general, and traders in particular, have been gainers in proportion. CHAP. XXIII.

Next, an important, although indirect, advantage from a paper currency is, that it increases the quantity of money in circulation. For the greater part of the notes issued, the equivalent in coin is of course paid into the Currency Department, there to remain in reserve for the conversion of the notes if presented for payment. But, in every country, it is found that a certain portion of its paper currency may safely be issued without any equivalent withdrawal of coin from circulation; and the effect of the measure is thus far precisely the same as would be produced by the discovery of an equal amount of the precious metals, and the wealth of the country is to that extent increased. Up to the present time, the increase of the circulation from this cause has been only four millions sterling, and this, compared with the total circulation, is hardly appreciable. But should the paper currency be largely extended, the increase of money due to the measure might be very considerable. Now it is generally admitted by political economists that the effect of an increase of money is not merely an increase of wealth, in respect of its being an addition to commodities generally, but that it also tends to stimulate the production of other wealth; that in this way the discovery of the goldfields gave a great impetus to commerce; and that, in fact, it is an essential condition of an active and profitable state of trade that money should be cheap—not cheap, of course, as regards the rate of interest and discount, but cheap with respect to other commodities. In fact, it may be asserted that, but for the production of the goldfields, the present extent of the world's trade could never have been reached; while the total increase of wealth which has accrued since their discovery, far exceeds the amount of the gold itself which has been produced. And what follows from the

2. From the increase of money resulting.

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VI.

discovery of gold is equally a consequence from the issue of paper without a coin reserve. Suppose—to take an extreme case—that the Indian paper currency suddenly reached a hundred millions, and that a cash reserve of only fifty millions were retained, the other half of the produce of the notes being invested in Government securities. The first result would be the virtual extinction of one-half the Indian debt, and a corresponding reduction of taxation, which alone should give an impetus to trade. But still more important would be the result of the addition made to the money in the country. The holders of the notes would have a hundred millions in place of the coin exchanged for them, and the holders of the Government stocks which had been redeemed would have fifty millions in coin in place of their stocks, which fifty millions would be so much additional to the capital of the country. So far as the Government is concerned, the result would be just the same as if it had found fifty millions sterling of treasure: it has made a profit of that amount, and can employ it either, as supposed above, to reduce taxation, or in improved administration, or public works. On the other hand, the impetus given to trade would be very great, because the holders of the fifty millions received in redemption of the Government stocks, would be obliged immediately to seek for other investments. The effect of so large a capital becoming suddenly available for disposal would necessarily be highly beneficial to the country at large.

Effect of
this in-
crease on
prices.

Among the other results from such a sudden expansion of capital, would certainly be a rise of prices. But this is not a result peculiar to an increase of currency from an emission of paper; it also follows from all improvements which economise the use of currency. Cheques, bank credits, bills of exchange, clearing-houses—all the devices of modern commerce for economising the use of the precious metals, by diminishing the quantity of them required for conducting the business of exchange, and

therefore increasing the amount of money available for other purposes, have the effect of cheapening money, and making other things proportionally dearer, and persons whose incomes are derived from salaries or fixed investments are so far losers. But the country generally benefits, and with its gain all classes must profit indirectly. Commercial prosperity means prosperity for every one, and not merely for those engaged in trade; and when the employers of labour—whether the State or private persons—are wealthy, there cease to be such things as fixed salaries, because business, and the establishments required to conduct it, are constantly increasing.

The third great element of gain, that which would accrue to the Government, has already been referred to. An extreme case has certainly been assumed, for the expected result cannot of course be suddenly arrived at. But, considering the large amount of the present silver currency, and the constant expansion of Indian trade which takes place, it seems quite reasonable to assume that the paper currency, if successfully carried out, would attain a very large circulation. So far as the people generally are concerned currency notes have not yet attained any circulation whatever, beyond the immediate neighbourhood of the offices of issue. Yet it is to supply their wants that the large silver coinage has been developed during the last thirty years. The money of India is not held by capitalists, or by the banks, as is the case in commercial and highly-civilised countries, but is spread over the face of the country among the vast agricultural population; and should the paper currency ever come into favour with the people generally, and circulate freely from hand to hand in every Indian bazaar, like the coin which it represents, the paper circulation would probably be developed at the same extraordinary rate that has marked the increase of the silver currency during late years; nor does it seem unreasonable to expect that a paper circulation of 100 millions sterling would be

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3. Profit to
be derived
by the Go-
vernment.

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rapidly attained. As to the reserve to be held, there are circumstances, to be referred to presently, which should render an Indian paper currency in a peculiar degree stable; and, considering that the note issue in England is usually nearly twice as large as the cash reserves, an Indian issue of £5 millions in excess of the coin reserves, or one-fourth the total paper circulation, is at least not an extravagant estimate. Whether this issue be effected quickly or slowly, the result is, in either case, that the Government derives a profit of that sum, just as much as if the same amount of treasure had been found. And although a profit of this kind can only be made once and for all; still, when the difficulty is considered of raising money by additional taxation, and when it is remembered that the income-tax, after all the trouble attending its imposition, realised only eight millions in five years, it will be admitted that any measure which offers a chance of bringing in three times that amount to the imperial treasury is, from this point of view alone, highly important. And the first step towards the realisation of this object will be the discovery and removal of the causes which have so far obstructed the progress of the measure.

Causes for
compara-
tive failure
of paper
currency
measure.

The reasons, then, why the Indian paper currency has so far had such a limited circulation appear to be of two kinds. First, the denominations of note employed are not suited to the circumstances of the people; secondly, the note is practically inconvertible throughout the country.

1. Denomi-
nation of
lowest note
not low
enough.

As to the first point, it is true that the lowest denomination of note—ten rupees—is only of one-fifth the value of the lowest note used in England, but it is still much too large for use in the ordinary course of business. So would the five-pound note be found in England, were it not that the custom of trade there places on the creditor the burden of finding change for a note whenever it is presented. A person who has to pay a few

shillings to another, tenders a five-pound note, and expects, as a matter of course, that the payee will accept it, and give him back the difference in silver and gold. In matters of this kind, the custom of a country has the practical effect of law; and under the keen competition of English trade, no retail dealer could refuse to accept the burden of finding change, under pain of losing his custom. Nor is the obligation in reality troublesome. Every English tradesman has an account with the nearest bank, which receives its customers' money when paid in, whether in notes or coin, and supplies them with change in turn without any charge. But the course of trade in India is in no way analogous to this state of things. Except in the presidency towns, custom enjoins that the purchaser shall find the needful change—that is, shall tender the exact amount of the payment due; and therefore (the paper money being practically inconvertible) on every purchase for less than ten rupees, he has to pay a discount for cashing his note.

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XXIII.

In order, therefore, that the paper currency should be really suitable to the wants of the people, the introduction of notes of smaller denomination appears to be required. The paper-currency measure, as originally proposed, provided for the use of a five rupee note; but the retail trade of India is carried on in such a minute detail, as regards individual transactions, that even this would be too large effectually to answer the purpose. Nothing larger than a one-rupee note is likely to prove suitable; while, in order to encourage its circulation, dealers might be supplied at a wholesale price, like stamp-vendors; it is in this way that the copper coinage of India is now got into circulation throughout the country. Such a note, it may be noticed, would be much more convenient if made of card, or still better of leather, than if made of paper.

A one-
rupee note
desirable.

But a still more effectual check on the extension of the Indian paper currency is its practical inconvertibility.

2. Note
practically
inconvertible,
from

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—
extent of
circles of
issue, and
absence of
means for
cashing it.

The circulation of the Bank of England note is secured, because, although coin can be demanded for it only at the bank in London, every town in England contains persons who have business with London, and to whom, therefore, the bank-note is as convenient a form of receiving payment as coin. Moreover throughout England the means of communication are rapid; commercial intelligence has attained to an advanced state of development; and confidence in the paper currency has been established by experience. But there is nothing analogous in the circumstances of the Indian currency. Each of the currency circles forms an extensive territory, equal in size to a great European kingdom; and the mere fact that the note is payable on presentation at the head of the circle is quite insufficient to constitute practical convertibility. The town where the office of issue is situated is not in a great centre of money operations, from which an extensive movement of notes or coin could be made to proceed; and therefore, in the absence of any special demand for the means of remittance from the different parts of the district comprised within a circle to the headquarters' town, the convertibility of the note at the latter place will be quite insufficient to make the note circulate at par throughout the country generally. In order that the notes might have this free circulation, it would be necessary that the demand for them should be equal to the supply—or, in other words, that there should be as many persons desirous of receiving notes as there are persons wanting to pay them away. Now, at present, the only parties in each district willing to take notes in payment for debts due are the agents of Government; and, therefore, the only persons who can get notes readily taken off their hands are those who have payments to make to the Government. Thus, in order that a person holding a note may get rid of it, he has to find out some one who belongs to this class; and as that is a very limited one, the intermediate agency of money-changers becomes

necessary—hence discount charges, and the depreciation of the note. The usual charge for cashing a note in the Indian bazaars is one per cent. To pay a person of the poorer classes, such as a domestic servant, by a bank-note, is practically to mulct him of a part of his dues.

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XXIII.

The remedy for this state of things appears clearly to be the extension throughout the country of facilities for cashing the note. And these would be provided by making the notes payable, on presentation, at every district treasury throughout the country—which would have the effect of increasing the number of issue offices from ten to upwards of two hundred.

Remedy:
to make
every dis-
trict trea-
sury an
office of
issue and
payment of
notes.

The objection always brought forward to such a proposal, is the difficulty of providing a reserve of coin sufficient to meet the demand that might be made for it, by the presentation of any amount of notes at any treasury; and, at first sight, it might appear almost impossible to secure this provision. But a good deal of the apparent difficulty disappears on examination. By far the greater part of the Government treasuries are situated in rural districts, where the currency is held mainly by an agricultural community, and is not liable to sudden fluctuations from the operations of trade. At all such places the demands for cashing notes would be equable in character, and their extent readily ascertained by experience. The quantity of money in circulation is no doubt steadily increasing in every district throughout India, and in most parts there is, at certain seasons, a considerable inflow of specie, imported for the purchase of agricultural produce. The burden of transmitting this specie to the interior would now have to be undertaken by the Government; but there would be nothing risky or uncertain in the operation, and the cost of it would be amply recovered in the profits of the paper currency. Moreover, it is clear that, in proportion as the convertibility of the note is rendered easy, the demand for specie for the purchase of agricultural produce from

Provision
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for carry-
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change;

in agricul-
tural dis-
tricts;

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the cultivators will diminish. Until the note has become really current, only coin can be used for this purpose; and on the district treasury being first converted into an office for cashing notes, no doubt the immediate result would be, that while the remittances of traders from the seaports to the interior would be made in notes, these notes would be immediately presented at the district treasury for conversion into coin, to be distributed among the cultivators in the form of advances, without receiving which no Indian farmer can harvest his crops. But it may fairly be anticipated that, so soon as the convertibility of the note on presentation at the district treasury became an established and familiar fact, and the note, instead of being an object of suspicion, was as readily current as the rupee, the necessity for making these advances in coin would cease, and notes would no longer be returned, as soon as issued, to the treasury for payment. The burden of making remittances 'up country,' to meet the notes remitted by private parties, would then cease in great part. The notes would come to be used, not only as a means of remittance, but as the medium of final payment; and the cash reserve necessary to be kept at each treasury would ultimately become only a certain fractional part of the average quantity of notes in circulation.

and in
commercial dis-
tricts.

Such would be the case as regards the common run of purely agricultural districts. With respect to the large commercial towns—as Patna, Mirzapoor, Dacca, and the great cotton marts—it would be somewhat different, because trading operations take place there on a more extensive scale; and the greater variations in the demands of the currency likely to arise in consequence, would no doubt require special care and provision. Since the exports of the country are much in excess of the imports, the course of trade tending from these places to the seaboard, the difference has to be paid for in money; and since at these places there is the liability to sudden fluctuations in the movement of capital, con-

siderable coin reserves would have to be kept in the treasuries, to meet the demand for cashing notes which might arise. But the conditions already pointed out, as governing the course of the measure in the less important parts, would be generally applicable here also. The main point of difference would, in fact, be simply this—that, in such localities, prudence demands a larger proportion of specie reserve to note circulation. The cost of remitting coin to meet the flow of notes to the interior, which would thus have to be borne by the Government, would probably however even here not be considerable, compared with the profits to be derived from the paper currency. The banks were prepared to undertake it for a very moderate remuneration, if the management of the business had been given to them; while, as has been already pointed out, just in proportion as the Government extends facilities for cashing notes, will the demand for cashing them diminish.

It needs hardly be said that the system here advocated contemplates the entire abolition of currency circles, and the establishment of one universal note for all India. This seems to be quite a necessary condition of its ready convertibility. The scheme of currency circles may be thought to possess the merit of safety but it would be still safer not to have any paper currency whatever. If India consisted of a congeries of separate nationalities, with distinct geographical or political differences, or even if the course of trade were marked by well-defined commercial boundaries, so that these circles corresponded to so many isolated political or commercial divisions, their maintenance might, perhaps, not have been attended with extreme inconvenience; although, even then, this creation of diverse artificial monetary systems—at a time when European nations are endeavouring to remove the barriers which now hamper the operations of trade—would be a step backwards. But the actual state of things is entirely the reverse of this. There is no such thing in India as a

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currency
circles.

self-contained, isolated circle of commerce. The commerce of the great ports is, of course, entirely derived from the trade of the interior; while, even in the interior, the course of trade is diverted indifferently to the east or west coast, according as the consignments of produce have been purchased by merchants at Calcutta or Bombay. Under this state of things, the maintenance of these separate circles is utterly incompatible with a free development of the paper currency, and their effect must certainly be to keep the measure dwarfed down to the most insignificant proportions. Notes cannot now be made use of for purposes of trade, because they are not current beyond the circle where they were issued, and it is, in most cases, beyond that circle that the merchant would have to employ them. Thus, a Bombay merchant cannot use notes to buy cotton with, because the cotton districts are beyond the Bombay circle. The same thing holds good all over India. Such a restriction may, in one sense, secure the convertibility of the note, but it does so at the cost of completely preventing its circulation; whereas the object that should be kept in view appears clearly to be the utmost possible extension of that circulation, the security of the issues being maintained by independent measures. The fact that the circles were originally devised by the late Mr. Wilson cannot, with present lights, be deemed to carry much weight. At the time when they were first proposed, the whole matter was experimental, and was necessarily introduced with caution;* but there can be no doubt that able economist was bent on making the establishment of his Indian paper currency a thoroughly successful measure, and it may fairly be presumed that he would have been the first to propose a modification of the plan, on finding how completely the maintenance of these circles rendered it inoperative. Those who differed in opinion from him on the currency question would readily

* The measure did not actually come into operation until four years after Mr. Wilson's death.

allow that his theories on that subject were not likely to err on the side of excessive caution.

But while the universality of the Indian note appears thus to be an essential condition of a really useful and comprehensive measure, it seems not the less necessary that the change should be carried out very gradually, the measure being extended only by degrees, from point to point, throughout the country. It is customary, indeed, to take for granted that every administrative change should have universal and simultaneous effect throughout India, and the notion is a standing difficulty in the way of all sorts of improvements. Its effect on finance and taxation has been already referred to, and it would be especially a difficulty in the case of a change in the currency system. The operation, carried out in that way, becomes then too extensive for the superintending authorities to watch over in all its parts; friction arises in different quarters, from want of care or intelligence in local agents; and disrepute is thus brought on the measure. But, by proceeding gradually—beginning, for example, with the district treasuries in Bengal, and applying the new arrangements to them, one by one, before proceeding to other provinces; extending, at the same time, the limits of the three presidency circles by degrees to absorb the others, and then finally merging those three circles into one—the danger of miscarriage would be greatly reduced. A gradual process of this kind would admit of the treasury officials being trained to the efficient performance of their new functions, while the space of three or four years should suffice to convert every treasury in the country into a currency office. And, which is still more important, time would be afforded to watch the course of movement of the notes, and to find out the weak points where the demand for coin in exchange for them is likely to be exceptionally large. Little or nothing is known on this head at present, but experience will soon enable the facts to be ascertained. Probably the strain on the currency, from

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Change
should be
carried out
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this cause, will be manifested in periodic cycles, occasioned by the course of trade; but when once their *régime* is known, it will not be difficult to provide for strengthening such places by adequate specie reserves. It may here be remarked, that, since the working of the system would involve a considerable movement of specie, its success would be greatly facilitated by the introduction of a gold coinage.

Summary
of fore-
going pro-
posals.

Such, then, is the state of the case as regards the Indian paper currency. It appears that, while the extent of its circulation is at present quite insignificant, an enormous extension may be anticipated; while such an extension, provided the system can obtain the confidence of the people of India generally, should be in a high degree profitable both to the country and the Government. The measures needed in this view appear to be—first, the introduction of a low denomination of note, adapted to the wants of the people; secondly, the abolition of the separate circles of issue; and, thirdly, the conversion of every Government treasury throughout the country into a currency office, where the note may be payable on presentation. The effect of these measures should be to secure the full circulation of the note, as an effective portion of the currency, and to make it as readily transferable as coin. Its perfect convertibility would be secured by keeping in hand an adequate reserve of specie.

Conditions
of India
favourable
to stability
of cur-
rency.

The proportion which this reserve should bear to the whole paper circulation is a matter which can only be determined by experience, and the extension of the issues in excess of that reserve would of course be very gradually and cautiously made. But it is important to observe that the same condition which would render the Indian paper currency a source of profit, if thus fully developed, would also tend to insure its safety; this condition being the primitive monetary system of the country, which involves the use of a very large quantity.

of money in comparison with the extent of the transactions involved. In England and other countries where commercial arrangements have reached an advanced state, the different refinements employed for economising the use of money—banks, cheques, book-credits, &c.—have also the effect of tending to intensify the disturbance caused by any fluctuation of the precious metals. About thirty millions of notes and twice that quantity of gold suffice for transactions which amount to vastly greater sums in the course of the year. But the result of this economy is that the effect of any change in the amount of the circulation is magnified in proportion, and thus a drain of a few millions of gold from England to the Continent often proves sufficient to disturb credit represented by amounts many times greater. But in India there is nothing corresponding to such a state of things, except in the immediate centres of European trade. A foreign drain of specie never occurs; there is no economy employed in the use of money, all transactions being effected, as a rule, by actual payments; lastly, the bulk of the money in circulation is held by an agricultural and not a commercial community. The characteristic of a paper currency in such a country will, therefore, certainly be fixity in amount, so soon as it extends beyond the centres of trade, and becomes employed by the people generally. Under such conditions, any sudden or extensive fluctuations in the demand for paper money are very unlikely to occur; and a monetary panic, with the most ordinary degree of care, is well-nigh impossible. Here, then, lies the peculiar advantage offered by the measure. No other country could offer the same opportunity of profit, available in so simple a manner.

As to the extent which the paper currency may attain, it is reasonable to suppose, as has been already pointed out, that an increase of the total circulation of at least one hundred millions will take place during the next

Extent of
specie re-
serve ne-
cessary.

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thirty years; and if the paper currency be well managed, the augmentation might be made almost wholly in that medium. And if three-fourths of this circulation were covered by a specie reserve, a proportion which even the most cautious financier would probably deem safe, there would remain a profit of twenty-five millions, or nearly a million a year—considerably more than is produced by a moderate income-tax.

Views of
different
authorities
on this
head.

While referring to the subject of specie reserves, it may be noticed that the representatives of the two currency schools, although looking at the matter from different sides, appear to be agreed in reality upon all essential points. Mr. Wilson proposed that the reserve held by the Currency Department should be at least one-third the amount of the notes in circulation. Mr. Laing and Lord Halifax, on the other hand, have provided that four millions sterling may be issued in notes, against securities purchased with the proceeds, and that all issues in excess of that amount shall be issued only against specie. But what both parties really looked to was, that the convertibility of the note should be absolutely secured by an *adequate* reserve. Mr. Wilson expressly disclaimed any intention of working down, at first starting, to a minimum reserve of one-third; and it may fairly be presumed that he would have felt his way cautiously, and have reduced the proportion of the coin reserve only by degrees, as the paper currency extended, and made its way among the population. On the other hand, it may be presumed that the framers of the scheme which has actually been carried out did not intend to maintain the limit of four millions in perpetuity, but were prepared to extend it from time to time by legislative enactment, as circumstances showed the advance to be safe and desirable. The total present circulation being about 11 millions, the specie reserve of 7 millions appears already needlessly large, and the reserve of 4 millions in securities might be increased without any

risk. And in proportion as the note circulation extends, will the minimum below which it cannot fall extend likewise; and it seems reasonable to expect that, looking at the peculiar conditions of India, Mr. Wilson's proposed reserve of one-third might eventually be found by experience to be amply sufficient for the purpose. Even on the more sober estimate taken here, the prospect offered by the paper-currency measure is such as to invite a vigorous effort for its successful completion.

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* Note to 2nd Edition.—A Bill has lately been introduced into the Legislative Council of the Governor-General, authorising the Currency Department to purchase two millions more of government securities with its specie reserve. The effect of this operation will be a permanent saving of 80,000*l.* a year in the public expenditure.

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