SILVER

AND

THE INDIAN EXCHANGES

DISCUSSED IN QUESTION AND ANSWER,

WITH A

FEW WORDS UPON BI-METALLISM

BY

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PREFACE.

The following questions and answers are the fruits of an endeavour to elucidate some of the difficulties of the Indian Exchange, as well as the intimate working of a proposal made by me some years ago for its rectification. The scheme has been vigorously assailed; but the objections have universally shown that, either it was misunderstood, or that the authors were unacquainted with facts essential to its examination.

In a subject of such extraordinary scope and intricacy, it is no wonder that the doubts suggested seem to be innumerable. This may be accounted for by there being so few who combine the requisite knowledge of facts with a mastery of the economic principles; and of those few, hardly any who have leisure for its elaborate study. It would extend this pamphlet to an intolerable length to notice and reply to all the misapprehensions and mistakes which have been published at various times. I have, therefore, thought it best only to print in the appendix a statement of the proposal, and the objections to it of the late Mr. Bagehot; because his acknowledged eminence as a writer on economical subjects will be accepted as a sufficient guarantee that no serious defect could have escaped his notice; more especially as, by a previous repeatedly published opinion, his reputation was pledged to demonstrate the unsoundness of every suggested remedy.

It will be seen, on an attentive perusal of the objections and answers, that the former are, with the exception of the first—which experience has proved to be unimportant—altogether groundless; and I trust that, as no serious error could be discovered by the late talented editor of the "*Economist*," the natural inference therefrom, as to the perfect soundness of the scheme will not be further gainsayed.

Although this is the fourteenth Essay which has been printed by me for submission to the Indian authorities, only one publication has been made, and that at the first—in 1876. The object has been to elicit objections, and furnish an answer to every suggested doubt in the hope of eventually obtaining a searching investigation of the proposal. I cannot witness a *weekly* sacrifice of £50,000, which has already wasted the resources of India to the extent of 10 millions sterling, and will do so with greater rapidity hereafter, eventually settling down at the same, or a much greater weekly loss, with a constantly fluctuating exchange, without earnestly beseeching attention to so easy a remedy; and stating my readiness to demonstrate its entire freedom from every real objection, and its necessity for the commercial progress of the Empire, irrespective of the large savings in remittance ensured by its adoption.

I. T. S.

14TH ESSAY.

QUESTIONS AND ANSWERS

ON THE

INDIAN EXCHANGE AND BI-METALLISM.

Of a "balance of trade."

1. Q. What is a "balance of trade"?

A. A "balance of trade" is the difference between the debits and credits of a country on the whole of her foreign transactions, in merchandise, securities, and bills.

How liquidated.

2. Q. How is a debit balance of trade liquidated?

A. By the transmission of specie.

3. Q. Why not by the transmission of goods?

A. Because the "balance of trade" is the difference which exists after the sale of goods, &c., both ways, has been pushed as far as possible.

Causes of a "balance of trade."

4. Q. When an adverse balance of trade continuously exists, what does it indicate?

A. That prices in the debtor country are too high.

5. Q. How is that rectified?

A. By the transmission of specie from the debtor country, whereby its currency becomes contracted.

Adverse balance how rectified.

6. Q. How does that operate?

A. When the bulk of the currency is sufficiently diminished, prices are lowered.

7. Q. In what way does that tend to remedy the adverse balance? Rectification of adverse balance.

A. When prices in the given country are lower, she is able to sell more, and to buy fewer, commodities than before; and in that way, by degrees, the balance against her is reduced.

8. Q. How far is that carried?

A. Till prices in the given country are in equilibrium with those of the country dealt with.

9. Q. What happens then?

A. In the end it results that the debts due by the country are equalled by the debts due to it; the balance disappears, and the exchange with the foreign country returns to "par."

10. Q. What is the exchange? Of the exchange.

A. The price of the currency of one country in terms of the currency of another country.

11. Q. What is it which gives rise to quotations of the exchange?

A. The mutual sale of debts, arising from trade in commodities, or otherwise.

12. Q. How are those debts represented?

A. By bills drawn by creditors in one country on their debtors in another country.

13. Q. What is the "par" of exchange? "Par" of exchange.

A. Speaking generally, it is the statement of the corresponding sums equal to one another in two currencies. But there are two kinds of "par,"—the "intrinsic," and the "commercial."

14. Q. What is the "intrinsic" par?

A. When the two sums of money, in two countries, exchanged for one another, *contain* equal weights of the *same* pure metal.

15. Q. What is the "commercial par" of exchange?

A. When the two sums of money exchanged for one another can *purchase* an equal quantity of the same kind of pure metal.*

16. Q. What is the "intrinsic" par of exchange between India and England? "Intrinsic par."

A. There is no "intrinsic par," because the currencies of the two countries are based on different metals—silver and gold.

17. Q. What is the "commercial par" between India and England? "Commercial par" of India.

A. There is no *fixed* "commercial par," because the relative value of silver and gold is constantly changing. The Indian rate of exchange generally varies with the gold price of bar silver; the cost of which per British standard ounce, multiplied by a co-efficient, representing the proportion of silver contained in the rupee, and the expenses of transmission and coinage, (at present about 0·385) gives the commercial value, or "specie rate" of the rupee, for the time being.†

18. Q. What is it that raises or depresses the rate of exchange?

A. The balance of debt due *to* or *by* a foreign country, occasioned by trade, or otherwise.

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* "Kelly's Cambist, Edition of 1811, vol. ii., page 4.

† For example, if 52d. be the price of the ounce of silver; this multiplied by 0·385 gives 20d., or 1s. 8d., as the rate of exchange produced, at present, by its transmission and coinage.

19. Q. How does that influence the rate of exchange? Rise and fall of the exchange.

A. When a country has exported and sold more goods than she has imported, there is more to be paid *to* her than *by* her. Consequently, bills in her favour, to be purchased by the other country, are more numerous than the bills drawn by her to pay her debts; therefore, the bills which are sought for to command her currency rise to a premium, and the exchange becomes favourable to her.

20. Q. When a country has imported more than she has exported, what is the result? The same with adverse balance.

A. There are more bills required by her in favour of the foreign country than bills in her favour to exchange for them; so that bills on the foreign country being in greater demand, she has to give more of her currency to procure them; and the exchange becomes unfavourable to her.

21. Q. When the exports and imports of a country are equal in value, what is the result? "Par" of exchange.

A. The exchange is then at "par," because the bills drawn in favour of and against the country are equal to one another.

22. Q. What "par" is that. Is it the "intrinsic" or the commercial par"?

A. The "commercial par."

23. Q. If between two countries, as India and England, at a time when their mutual sales of commodities balance one another, and the exchange is at "par," there were to arise, independently, a large annual payment to be made, say by India to England, how would that affect the exchange? Effect of debt on the exchange.

A. The annual payment to be made by India would have the same effect as an equal value of commodities imported by her. It would be like an adverse balance of trade, increasing the number of bills drawn against her, and thus producing an adverse exchange.

24. Q. How could that be rectified? How the exchange is rectified.

A. By the transmission of specie in the first instance, which would meet the payment; and, if continued year after year, would attenuate the Indian currency, lower the prices of her commodities, increase her sales, diminish her purchases, and thus reduce and finally destroy the annual balance against her.

25. Q. Supposing circumstances were such that specie could not be transmitted, what would then be the consequence? Effect of balance without specie remittance.

A. A still more adverse exchange; and, although previously to the annual payment, the export trade of India had been pushed as far as possible at the then existing prices in the two countries; still, when the exchange was further lowered, owing to the excess of bills, a more extended trade in Indian produce would be transacted; because, as rupees could be had for, say, 10 per cent. cheaper than before, merchants could afford to take 10 per cent. less for Indian produce, and more would be sold.

26. Q. Would the exchange be rectified in that case?

A. No. It would continue adverse until prices were either increased in the creditor, or reduced in the debtor country, or both.

27. Q. Would the exchange continue adverse if specie were sent from India to pay the annual debt? Exchange, how regulated.

A. No. After a few remittances of specie, the prices in

India would be lowered; and in time this would so increase India's sales, and diminish her purchases, that the payment on account of the debt would be covered by a balance of trade to an equal amount; the exchange would be restored to "par," and specie remittances would be no longer required.

28. Q. As it appears by the answer to question 17 that the rate of exchange between India and England generally varies with the cost of bar silver, how can it (18) also be regulated by the balance of trade? Effect of balance of trade.

A. The balance of trade ought to influence the exchange only to a very slight extent. The moment the exchange became so unfavourable to India that it was cheaper to send specie than to buy bills at the adverse rate, specie would be sent, and the fall in the exchange would go no further.

29. Q. Supposing that India had had for years, under existing prices in the two countries, a favourable "balance of trade" with Europe of nearly 20 millions sterling per annum, on the average, covering public and private debts (hereafter called "tribute") of that amount, and maintaining a tolerably steady exchange—as was the fact for 20 years previous to 1874-5—what would be the effect of a serious reduction of the prices of Indian produce in the London markets? Effect of a reduction of English prices.

A. It would diminish or destroy India's balance of trade; unless, either the prices of produce in India were correspondingly reduced, or there was a similar fall of the exchange.

30. Q. What has been the actual consequence of the considerable fall in the selling price of Indian produce in London which has prevailed during the last few years? Actual effect of fall of prices.

A. The lowering of the exchange by about 16 or 17 per cent.

31. Q. Would it cost 17 per cent. to transmit specie from India to England?

A. No. Not more than 5 per cent.

32. Q. How comes it that the exchange can be lowered beyond the cost of transmitting specie?

Why Indian exchange is lower than specie rate.

A. Because it is impossible to send specie from India to England, as a remittance, without an additional loss to the 17 per cent. by the exchange.

32. Q. What would be the object to be gained by sending specie to England?

Effect of specie remittance.

A. By paying her debts in that way, if rupees were sent, the Indian currency would be contracted, her prices would be lowered, and thereby, as before explained (7 to 9), a balance of trade would be maintained sufficient to pay the "tribute," with a restored exchange.

34. Q. Can this regulation of prices, to adjust balances of trade to "tribute," be effected naturally, and automatically?

Automatic adjustment.

A. Yes. If the currencies of the two countries were in proper relations with one another, and there were no obstruction, remittances of specie both ways would be automatically caused, as I have explained (28) by the exchange.

35. Q. Why is it impossible to send specie as a remittance from India to England?

Difficulty of remitting specie from India explained.

A. Because rupees can never be sold in England, to yield so good a rate of exchange as bills. For, when a London merchant sends out silver to India for coinage, the rupee costs him, besides the cost of the silver, $3\frac{1}{2}$ per cent. in the expenses of transmission and mint charges. In other words, the rupee stands at $3\frac{1}{2}$ per cent. more than the cost of the silver it contains; and he prefers to pay the price of the silver plus $3\frac{1}{2}$ per cent., for a bill or "telegraph transfer," which gives him the rupees at the same or rather less cost, (see Ans. 49) with much less trouble. This, then—the "specie rate"—becomes the rate of exchange for the time; and a merchant in India wishing for a remittance to England, can always procure a bill at about the "specie rate," which will yield him, for every rupee he pays, a trifle less than $3\frac{1}{2}$ per cent. beyond the value of the silver it contains; whereas, if he sent the rupees to England, he would not realise even so much as the value of the silver; because he would have to deduct from it the expenses of transmission and sale. The advantage in favour of a bill, as compared with the transmission of rupees, would be about 5 per cent.

Loss of 5 per cent. beyond the exchange.

36. Q. Why is not the price of silver altogether independent of the "Council bills?"

Price of silver not independent of Indian demand.

A. If there were a sufficient demand for silver in other countries, to maintain its price, irrespective of India, it might be so; but experience shows that silver is very dependent upon the Indian demand, so that its price is governed by the rate of the Indian exchange.†

37. Q. What is meant by the "specie point" of silver?

"Specie point."

A. The "specie point," or "rate," is the rate of exchange produced by the transmission and coinage of the metal. (*Vide* Ans. 17.)

* The co-efficient by which the rate of exchange may be multiplied, to show at what price silver must sell in London to give a result equal to a telegraphic transfer at that rate is—allowing $1\frac{1}{2}$ per cent. for freight, and charges—2·73. Thus at 1s. 8d. per rupee, 20d. × 2·73 = 54·6d. Silver must sell at more than $54\frac{1}{2}$d. per ounce, to make a remittance of rupees equal to a bill at 1s. 8d. the rupee.

† *Economist*, October 7th, 1876. "*Some Articles*," page 86.

38. Q. Could the rate of exchange for the bills drawn by the India Council and others be *above* the "specie point" of silver? "Specie point."

A. No. Merchants will always make their remittances in the cheapest possible way; and whatever rate of exchange silver offered, they would not give more than that.

39. Q. Could the rate for "Council bills" be *below* the specie point of silver? Rate of exchange and price of silver.

A. Yes. It is possible to conceive that silver might have a high price, caused by an independent European or American demand, while the Indian exchange and Council bills were kept low by the "tribute."

40. Q. Can it be true, in any sense, that the rate of the Indian exchange may be independent of the price of silver? Rate of exchange, how regulated.

A. Yes. Although the price of silver fixes a limit to the exchange in one way, yet the exchange itself is governed by the "balance of trade;" and the "balance of trade" is governed by the relative prices of commodities in the two countries.

41. Q. Is that the way in which the Indian exchange is now regulated? By relative prices in two countries.

A. No. In spite of a balance of trade in favour of India; reckoning the "tribute" as imports, the exchange is greatly against her.

42. Q. How do you explain this? Decline of the Indian exchange explained.

A. It is explained by the answers 29 and 30. There has been a great reduction of the prices of Indian produce in the London market, but no reduction of Indian prices; and, as it is impossible to send home specie without loss (35), the only way by which the necessary sales of Indian produce, to cover the "tribute," could be effected, is by a reduction of the rate of exchange, as detailed in answers Nos. 23 to 25. If Indian prices could be reduced, *pari passu*, with prices in London, the balance of trade would not need alteration. Reducing the rate of exchange has the same effect as lowering Indian prices; and by that means the balance of trade is preserved. Vide Answer 72.

43. Q. If Indian prices were lower, how would that affect her balance of trade? Effect of lower prices in India.

A. As before explained (Answer 7), if Indian prices were lower, she would sell more exports and buy fewer imports, and this would tend to produce a balance of trade in her favour.

44. Q. According to this, sending out silver to India and adding to her currency tends to make matters worse. Is this the case?

A. It is under certain circumstances. Every addition to the Indian currency, beyond what it will bear without increasing prices, tends, by raising them, to destroy, or hinder the formation of, a natural balance of trade.

45. Q. Hence it would appear that as an increased balance of trade ought, by some means, to be created to meet an additional "tribute," a supply of silver, which either raises, or hinders the lowering of Indian prices, tends to lower the rate of exchange, or keep it low. Is this so? Effect of cheap silver on the Indian exchange.

A. Yes. Except when the expansion of the Indian trade is so great as to require the additional currency; and is able to take it in, in spite of reduction of prices.

46. Q. Is there anything besides lowering the Indian prices which would tend to restore the rate of Exchange? Effect of higher prices in England.

A. Yes. The increase of English prices for Indian produce would have the same effect.

47. Q. Is not that, supposing that the Indian prices remained unaltered.

A. Yes, certainly. But if silver in large quantities were sent out to India, and prices much raised there, the exchange might be made worse, in spite of the improvement of prices in England.

Effect of silver on balance of trade.

48. Q. Does silver sent to India increase the balance of trade in her favour?

A. No. Silver is an *import* by India, and rather tends the other way. Taking the whole transaction into account, it is a self-contained operation, requiring produce to be sold to pay for it; otherwise reducing the balance, and aggravating rather than rectifying an adverse exchange. We are apt to form an erroneous idea of India's absorption of silver; the impression being that her products come to England in the usual routine, at normal prices, in excess of her imports; and that silver is returned, as a matter of course, to pay for them. Whereas, in the present case, India cannot possibly sell produce enough to pay her "Council bills" (to say nothing of silver besides), except by lowering the exchange; and, as the bills are constantly in the market and *must* be sold, silver cannot be placed in addition, except at the corresponding, or a still lower price, extending and aggravating the reduction.

Silver sometimes forced on India.

Silver and "Council bills."

49. Q. You said, in answer to No. 38, that the exchange could not rise above the specie point of silver; but by your last answer it would appear that silver cannot rise above the rate of exchange?

A. Whatever may happen to be the price of silver, the Council bills must be sold, and are, therefore, parted with at a trifle cheaper than the "specie rate" of silver. But if there be a difficulty in disposing of Indian produce, the rate of exchange may, of necessity, be reduced much below the previous normal rate by silver; and experience shows that silver is generally obliged to follow the rate of exchange.

Excess of silver doubly injurious.

50. Q. Do you make out that silver helps to lower the rate of exchange on this side, by competing with "Council bills," and on the other side, by raising prices; thus being doubly injurious?

A. Subject to the qualification given in answer No. 45, I do. Moreover, when the exchange is adverse to India, the transmission of silver means an increased sale of produce below normal prices.

51. Q. How do you explain that?

A. There is an indefinite and irresistible power of sale of silver to India, so long as her mints are open; and when silver is unable to find a purchaser elsewhere, it can always force a sale by submitting to a lower price, and compelling India to sell goods at an equal sacrifice, to pay for it.

52. Q. Your explanations seem to show that it is the exchange which governs the price of silver, not the price of silver which governs the exchange?

A. It practically does so; and that is in consequence of the large amount of the Council and other bills drawn upon India.

Price of silver often dependent on the exchange.

53. Q. How do they affect the price of silver?

A. A certain amount of "Council" and other bills have to be sold every year, and merchants can only give such a price for them, or silver, as that the rupees they thus purchase, when laid out in goods for sale in the home markets, will yield a profit. When home prices are reduced, the price of bills and silver must be reduced also, or the trade would come to an end.

54. Q. Bills must be reduced in price if the home prices of Indian produce are lower, and the Indian ones are unchanged; but why should silver fall in value?

A. Because there is not a sufficient market for silver outside of India.

Price of silver often dependent on the exchange.

55. Q. In other words, that silver is seeking a market, and obliged to take what the Indian merchant can afford to give?

A. Yes. There is an insufficient demand to keep up its price when India does not take it; and matters will be much worse a few years hence, when the American coinage is reduced.

Competition of silver and Council bills.

56. Q. Do you consider, then, that it is the competition of "Council bills" and silver that keeps both low?

A. Yes, as stated in answer 49, I do; but the rate of both is ultimately fixed by the comparative prices of commodities in India and England; being, nevertheless, from time to time, varied by changes in the amount of "tribute," or unusual demands of trade.

57. Q. In the present state of Indian and English prices, would not a great reduction of the former be necessary to give the required balance of trade (about 20 millions sterling) with the exchange restored to "par"?

A. Yes. A reduction of Indian, or increase of English prices of 16 or 17 per cent.

How the exchange could be restored.

58. Q. How could that be brought about?

A. No measures for that purpose are necessary; nothing, except to prevent Indian prices from rising higher.

59. Q. How then would the exchange be restored?

A. By the improvement of English prices. They have experienced an abnormal reduction, owing to a collapse of credit, depression of trade, and "appreciation" of gold. When trade is restored, prices will rise, and the Indian exchange would recover its former rate, if the competition of cheap silver were removed.

60. Q. How can it be made sure that, when English prices (of Indian produce) rise, the exchange will rise also; if the merchants only offer low rates, and the price of silver is equally low? **Exchange kept low by silver.**

A. The exchange could not rise above the specie point of silver, so long as the Indian Mints are open for its reception; but if the Government suspended the private coinage of silver, it would no longer interfere; and when the English prices of Indian produce improved, the merchants could *afford* a better exchange; and would, in competition, give as much as they could afford. See 91.

61. Q. What would happen if matters were left to themselves, and nothing were done? **Effect of doing nothing.**

A. If nothing were done, then, as trade improves on this side, silver would be sent out to India, and prices there would be gradually raised till another and lower average "par" of exchange was established, corresponding with the ultimate price of silver.

62. Q. Is there any proof that the Council bills govern the price of silver? **Action of "Council bills" on silver.**

A. Council bills do not necessarily govern the price of silver; but, as a matter of fact, they do regulate one another. Council bills cannot be sold dearer than the specie point of silver. Silver might be sold at any price, irrespective of the bills, if there were an independent demand for it; but, practically, as the Council bills must be sold, they are issued at the best price the merchants can afford to give, and silver is sold for the Indian demand at the same price.

63. Q. What, then, regulates the price of the "Council bills"? *How the exchange is regulated.*

A. The balance of the Eastern trade.

64. Q. What governs the balance of trade?

A. As before explained (Answers 4 to 9), the prices of commodities in the two countries.

65. Q. If the coinage of silver in India, for individuals were stopped, would not that "screw up" the value of the rupee? *"Screwing up" the rupee.*

A. Not if the Government coined and issued freely as many rupees as commerce required.

66. Q. If the Government coined and sold as many rupees as commerce required, what difference would there be between that and allowing commerce to coin for itself? *Gain by suspending private coinage of silver.*

A. A very great difference. The sale of "Council bills" is a *necessity*, and they are disposed of by competition at the highest rate (of exchange) the trade can afford to give; the price of Indian produce being lowered, when any unusual amount of bills is offered, to enlarge its sale and pay for them; the loss incurred in the reduced price of the produce being met by the lower exchange. But the sale of bills against an export of silver is no necessity: and after the area of trade has been already enlarged, at a sacrifice of prices and the exchange, to provide for the Council bills, a further enlargement and sacrifice must be submitted to if, besides the Council bills, more bills against cheap silver are to be disposed of. Again, if the Government alone sell the bills, then, as prices rise in

England, the exchange would gradually rise by competition, because the trade could afford it, and there would be no interference of silver. But if the Indian Mints were freely open, as at present, the exchange could never rise above the specie point of the metal; and instead of its improving with the improved home market, the effect would be that shipments of silver would be sent to India, and added to the circulation; and prices would there gradually rise; in the end confirming and fixing the low rate of exchange. Vide 90 and 91.

The interference of cheap silver.

67. Q. Why do you call it the *low* rate of exchange, when it corresponds with the actual price of silver in the Rupee?

Value of the rupee currency.

A. Because it is not the rate which represents the *true equation of normal prices in India and England.*

68. Q. What do you consider the true equation?

A. Two shillings for the rupee.

69. Q. How do you make that out?

A. Because it was originally so established by the Indian Government in 1835, and has continued so ever since, till the late collapse in English and European prices.

70. Q. Can these facts be proved?

Gold value established.

A. Yes. In the year 1835, when the present Indian currency was established, the ratio of silver to gold was fixed at 15 to 1, and the coins were adjusted to that ratio.* According to this, the silver in the rupee is worth 23·325d, and on adding to this the seignorage and Mint charges, the price is brought up to 24 pence.

* Prinseps Useful tables p. 4.

71. Q. Is there any further evidence of the proper value of the rupee? Value shown by the exchanges.

A. Yes. For the 20 years immediately preceding 1875, the average rate of exchange with England, when allowance is made for the "usance" of the bills drawn, corresponds with two shillings the rupee in a telegraphic transfer. Also, throughout the two years 1864 and 1865, gold bullion was sold for rupees in the Calcutta bazaar, at the average rate of a trifle more than 2 shillings the rupee*; and prices in India have not risen since then.

72. Q. How, then, do you account for the exchange being now only 1s. 8d. the rupee? By purchasing of gold with rupees.

A. By its being the necessary consequence of the fact that the prices of Indian produce in England have fallen, and of there being no other means of reducing Indian prices to correspond with them (34, 35 and 42).

73. Q. How does the fall of prices in England tell upon the exchange? Explanation of the fall of the exchange.

A. In this way. When a merchant has to pay £100 for a thousand rupees, which will buy Indian produce selling in the home market for £100, and a small profit; if prices in the home market fall, so that the same produce will only fetch £80, prices in India being unchanged, it is evident that he must put a stop to his trade unless he can buy the thousand rupees for £80. That is, he must give less for the rupees—in other words a lower exchange—or abandon his business. Hence, as the Council bills must be sold, and the merchants cannot possibly give more than 20 per cent. reduction for them, the exchange unavoidably gives way; the 20 per cent. discount being necessary to effect the sale of the produce.

74. Q. Do you, then, consider that Indian prices now correspond with English prices, in the proportion of two shillings to the rupee?

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* Vide Mr. Claud Hamilton's evidence before the Calcutta Currency Commission 1866.

A. Not with *present* English prices, but with what I call normal English prices; namely those which prevailed, on the average, for the 20 years prior to 1875.

75. Q. If that be so, then the rupees are now circulating at a value much superior to that of their metallic contents, and there ought to be a great profit in sending out silver for coinage. Is it so?

Rupees worth more than their silver.

A. There ought to be a great profit; for a rupee can now be had for 1s. 8d. in English money, which formerly cost two shillings. And there would be, but the profit cannot be realized, because the value of the rupee when obtained can only be transferred to England by goods or bills; and the reduction in the English price of goods is equal to the gain upon the rupee, and destroys the profit. When prices in England rise, the profit will become tangible, and will form a strong inducement to send out silver for coinage.

76. Q. How would the profit arise?

Profit by coinage.

A. If silver remained unchanged while the English prices of Indian commodities returned to their former level, so that a rupee laid out in India purchased goods which sold in England for 2s., there would be a profit of 4d. on every 1s. 8d. worth of silver sent to India.

77. Q. That profit you have said cannot be secured now; but as prices return to their former state in England, will not the profit be developed?

Coinage profit wrong for individuals.

A. Yes; but it is quite an improper and wrong thing that there should be any profit for individuals on coinage. It implies that the currency can be obtained at less cost than was paid for the existing circulating medium, giving debtors an advantage over creditors, and deranging all transactions. In this case, too, the profit would be made at the expense of the exchange; because, unless private coinage were stopped, as prices improved in England, the merchants, instead of giving the improved prices they could then afford for the rupees (*i.e.*, a higher exchange), would be tied down to the specie rate of silver, and would send it out for coinage. This would gradually raise prices in India, and permanently fix the "specie point" as the new "par" of Indian exchange.

Coinage private gain injures the exchange.

78. Q. If the private coinage of silver were stopped, what would be the effect?

A. The exchange would slowly rise to 2s. the rupee.

Gold standard.

79. Q. If the exchange were restored to 2s. the rupee, would it not be liable to fall again, in the event of another collapse of European prices?

A. Yes. But not if, in the meantime, the Indian prices had been based on gold.

With silver coins

80. Q. How is it possible to have prices based on gold with a silver currency?

A. In the same way that prices may be based on gold, or silver, with a paper currency. Domestic prices are necessarily based, *not* on the intrinsic value of the instruments of exchange which circulate, (the circulating medium), *but on that of the commodity (Standard) in reference to which which the circulating medium is created and put into circulation.* Rupees, therefore, like bank notes, might have a gold value.

Theory of value of domestic coins.

81. Q. Are you not now stating a doctrine opposed to the recognised principles of monetary science?

A. No. Standard coins being legal tender, take their value in domestic exchange according to the law of supply and demand; and it is the minimum cost of bringing them to the market which ultimately limits their supply, and settles their equivalent with goods. If the material constituting the Standard were of a very capricious value, the coins might, for a time, cost more or less than the currency; and continue to do so until the bulk of the circulating medium had been diminished or increased sufficiently to adjust prices to the change.

82. Q. Do you consider coins and money to be commodities or not? As to coins and monies being commodities.

A. Gold and silver bullion are commodities in the sense of raw materials; gold and silver coins are commodities in a different sense, and are dealt with in domestic exchange in the same way that manufactured articles are; *not* as raw materials, as they would be if sent abroad. No one thinks of estimating the value of a sovereign by the weight of gold it contains. There is not one person in a hundred who knows what it ought to contain. Sovereigns would circulate at 10 per cent. more than their present value if the Government, having the monopoly of manufacture, thought fit to charge 10 per cent. for coinage. As it is, they exchange for $\frac{1}{2}$ or $\frac{3}{4}$ per cent. more gold than they contain. Indian rupees for 2 per cent. more than the value of their silver.

83. Q. Do you mean to say, then, that gold and silver coins are not commodities? Further explanation.

A. Gold and silver coins, when they are legal tender, and universally current in any country, are "commodities" or "goods" in a different sense from gold and silver as mere metal. Coins are instruments or tools of exchange, and they are poured into the market like all other goods, till they cease to command a remunerative return. Their value in exchange depends upon their number compared with the demand, and their number is limited by the cost of providing the gold or silver necessarily given to procure them. This has nothing to do, *directly*, with the market value of the material of which they are composed. Under proper limitations they might be of the same value, whether made of metal or paper; and of no more value than inconvertible notes circulating side by side with them.

84. Q. Is it to be understood, then, that money is a commodity in the sense in which you allow that coins are? Instruments of exchange.

A. Speaking generally, it might perhaps be said that monies of all kinds, as instruments of exchange, are "commodities" like manufactured articles, but not in the sense of necessarily having intrinsic or "world wide" value. It is impossible to affirm, as a definition of "money," that, as a commodity, it must have intrinsic value; because, if so, inconvertible notes could have no value at all. But we all know that millions of inconvertible notes, having the full value of gold, were circulated in England for years together; hundreds of millions also circulate in other countries, having considerable value in domestic exchange, though intrinsically worthless. Some Examples.

85. Q. When you say that silver coins may have a gold value, what do you mean? Gold value in silver coins.

A. That they are brought into currency by a payment of gold; in the same way that bank notes procured by the delivery of gold have a gold value.

86. Q. How could that principle be practically applied to India? How to apply gold standard to India.

A. If rupees were in future *only* obtainable from the Government by the purchase of bills for English money, (virtually gold) as three-fourths of them now are; or by the delivery of gold bullion at the Indian mints, all Indian prices would be regulated by gold.

87. Q. To what extent will the exchange be restored, if the English prices of Indian produce regain their former position?

How the exchange could be restored.

A. Under the circumstances of answer 65 the exchange would be restored to the old rate of 2s. the rupee, unless prices in India had risen. Vide 89 to 91.

88. Q. But supposing that prices in India should happen to have risen, more or less, how could the exchange ever reach two shillings; seeing that, inasmuch as rupees cannot be sent to Europe as a remittance, there is no means of lowering Indian prices?

In case of prices having risen in India.

A. In the first place, prices have not risen in India. The opinion has been expressed * that they are even lower of late years. But even if they had risen, they must gradually fall, if not interfered with, till equilibrium is restored; this result being effected by the constant and natural exhaustion of the Indian currency, in supplying the rapidly expanding trade of the empire, which now causes an absorption of 5 or 6 millions sterling, or more, of treasure, annually.

89. Q. Do you then really think that, if the former prices of Indian produce in England were restored, the exchange would return to two shillings the rupee?

Exchange sure to rise if the private coinage of silver be suspended.

A. Yes. Certainly, if the coinage of silver were in the hands of the Government, and rupees were *freely* supplied only to meet the wants of trade at the rate of exchange merchants could afford to give.

90. Q. Has it not been pointed out that raising the rate of exchange would destroy the balance of trade, and prevent the sale of "Council bills?"

Would raising the rate of exchange destroy the balance of trade?

* Statistical Journal, Vol. XLIII., part I., page 7.

A. That assertion has been more than once made by writers who did not notice the difference between *raising* the rate of exchange and *allowing it to rise.*

Difference between raising the rate, and letting it rise.

91. Q. What difference does that make?

A. It makes all the difference between success and failure. If, while prices of Indian produce in England remained low, an attempt were made to *raise* the rate of exchange, the result would be that the merchants could not afford to take the bills, and the attempt would fail (73). But if the exchange be left to the spontaneous action of trade, the case would stand thus. At a time when Indian produce is selling in London 17 per cent. cheaper than formerly, that is at 83 per cent. of its normal price, if merchants can afford to give 1s. 8d. for the rupee, it follows that when the price rises to 100 per cent., they will be *equally well* able to give 24d. *without the least diminution of the export trade.* And the exchange would certainly rise to that point, if it were not handicapped by the dead weight of cheap silver; which, like a millstone hanging about its neck, would prevent its ever rising above the "specie point," whatever the value of the discarded metal might be. The remedy is, that it should be removed from the competition, by suspending private coinage.

"Appreciation" of gold.

92. Q. Supposing that the reduction of prices in England were more or less due to the "appreciation" of gold; and that no full improvement of home prices ever took place, what would be the result then?

A. It would be necessary, in order to bring the two currencies into equilibrium, to reduce prices in India to the same extent to which they were permanently reduced in England. But it is not likely that, when prosperity returns, after one or two good harvests, prices will remain as low as they now are.

Would exchange return to "par?"

93. Q. Do you think that, *whether prices improve or not,* equilibrium would be restored?

A. Yes. Certainly, under the conditions of answer Nos. 88 and 89, they would.

94. Q. It has been said that India and the East are the natural receptacle for a flood of silver, and that it would be unwise to shut it out. Do you consider this to be correct as applied to India? **Is India the proper receptacle for floods of silver?**

A. It is quite correct so far as India is able to receive it without loss; but of course, it ought not to be taken in by her beyond that.

95. Q. Do you think that under any circumstances silver poured into India is a loss to her? **Silver necessary for India.**

A. To a certain extent, it is not only no loss, but a real necessity for her; just as a moderate allowance of water is an essential benefit to my garden. But if silver be supplied to India beyond what the enlargement of her commerce requires, it is a loss and injury to her, just as my turning on the tap and allowing the water to run indefinitely would injure my plants.

96. Q. How are we to know the proper quantity which India requires? How is the proper quantity ascertained?

A. By the fact that when the rupees are in excess they begin to raise prices. The present Indian tariff of prices corresponds with the ratio of 2s. to the rupee. The best security against excess of the currency is the fact that the coins cost as much as they are rated at in the tariff of prices. When the exchange has risen so much that every rupee costs two shillings, there will be no exceptional profit in sending them out, and they will not accumulate unduly. It is the flood of *cheap* rupees which leads to congestion, and raises the tariff; and when that is the case, every superfluous rupee poured into India is so much value taken from the poverty of the masses; and not only that, but it causes further indirect loss.

97. Q. How that can be made out? It was implied in Parliament as being rather an advantage to India that she had bought cheap silver; for, while in former years she had received in exchange for her eight millions of pounds worth of produce, 32 millions of ounces of silver, the effect of depreciation was to give her, for the same value of produce, 40 millions of ounces of silver. Is not this true?

Excess of silver a loss to India.

A. That representation may be true, as a matter of fact, but the inference is founded on an imperfect view of the case. Subject to the explanation in answer 96, an excess of silver constantly forced on India impoverishes her both directly and indirectly.

98. Q. How do you show that it impoverishes her directly?

Direct loss by excess of silver.

A. Because as long as her mints are open, India *must* take in all the silver brought to her, and must give commodities and produce for it, whether it be of use to her or not. Now it is well known that the mere enlargement of her currency, and inflation of prices, is no real advantage to any country; and yet India would be called upon to part with millions of pounds' worth of commodities, in order to take in floods of cheap silver, and suffer this inflation of prices. Beyond, therefore, the natural wants of the Indian currency, it would be an injury to allow her to be deluged with silver.

99. Q. You said that India would be injured to a great extent indirectly. How do you explain that?

Indirect loss by excess of silver.

A. When the currency is increased in bulk so as to inflate prices, that shows that its value is impaired; and when that is the case, not only is the quantity in excess a useless purchase, but the depreciation of the rupee extends to the whole of the circulating medium, and involves the loss of many millions more. Thus, if in addition to the supply necessary to feed her expanding currency, India were to take in 30 millions value more, she would not only give away produce worth 30 millions sterling, wastefully, for a baneful inflation of her prices, but also lower the value of the whole, say, 180 millions of her coins, previously in circulation, by one-seventh, thereby incurring a loss of 25 millions more.

100. Q. How does it appear that a flood of silver taken in by India lowers its price? Is not that quite independently fixed? How English prices are lowered by cheap silver.

A. No. As explained in 53 and 103, a flood of silver can only be sold to India at such a price as will enable her to sell produce or goods in Europe to pay for it. When trade between India and England is in equilibrium, either a flood of silver or of Council bills naturally lowers the rate of exchange and the London price of produce, and silver cannot be sold for India at a higher rate than the exchange.

101. Q. Do you mean to say that the lowering of the rate of exchange is the cause of the fall of the price of silver, or is it the fall of the price of silver which causes that of the exchange? Whether bills, or silver lower the exchange.

A. Floods of Council bills, or of silver beyond the natural wants of India, turn the exchange against her, accompanied by a reduction of the English prices of her commodities, which are forced on the European markets to pay for the bills, or silver.

102. Q. How does this show that a flood of silver lowers the exchange, irrespective of its own market price? Excess of silver lowers the exchange.

A. Silver and Council bills have the same effect. Supposing that the trade between the two countries is in equilibrium, the exports and the imports (including bills) being equal to one another, and the exchange at "par" (2s. the rupee), if a few more millions worth of "Council bills" are offered to the highest bidder, the result is a fall of the exchange, and also of the price of Eastern produce; for this reason:—The markets have been previously supplied with all the Indian produce which can be sold at the existing prices, and if more is to be disposed of it must be at a reduction. This reduction could not be afforded so long as the rupees cost 2s. each, and silver the corresponding price; but a London merchant who can place a quantity of produce at an abatement of 5 per cent. can afford to give 1s. $10\frac{3}{4}$d. for a Council bill, and he and others bid at that rate.

103. Q. That applies to Council bills which, in fact, are the exchange; and when they are forced on the market in excess, they naturally become cheaper; but how does it apply to silver? Effect of excess of silver explained.

A. Silver, like Council bills, is a claim payable on demand for Indian currency, costing so much per ounce. Now, when trade is in equilibrium, and silver steady, at say 60d. per ounce, if a flood of it is brought to the market for sale, and is purchased for India, its price falls together with that of Indian produce forced on the market to pay for it, as just explained in regard to bills. It cannot be taken to India except in exchange for goods, and these can only be sold at cheaper prices than those of previous sales, already pushed to extremity, provided the exchange be lowered to compensate the loss; and, in a similar manner, the price of the silver, against which bills are to be drawn, is lowered also.

104. Q. Do you consider that the whole fall of the Indian exchange in 1876 was due to the floods of silver poured into the European markets? Causes of the fall of the exchange in 1876.

A. No. By no means—there were other causes.

105. Q. What were these?

A. There was no doubt, at first, considerable panic occasioned by the reported enormous productiveness of the Nevada Mines, and the demonetisation of silver by Germany. There was also, as pointed out by Mr. Giffen, some "appreciation" of gold. But the chief cause of the fall of the Indian exchange appears to have been the collapse of European credit, and of the prices of Indian produce.

106. Q. Can you give in one statement a view of the present situation of the Indian exchange, and the effect of the silver competition? General view of the causes of decline.

A. Yes. India has a large silver currency, and a tariff of silver prices which has prevailed for many years; the ratio of which, to the normal gold prices of England, is 2s. to the rupee. But for the collapse presently mentioned, if there were no such thing as "tribute," or debt to be paid to England, the trade would be in equilibrium, and the exchange would be steadily 2s. the rupee; the sales of commodities being pushed to the utmost in both countries. Formerly, the drafts on India by the Secretary of State were small, and the rate of exchange 2s. the rupee. Of late years the drafts have considerably increased, and this, of itself, would have temporarily lowered the exchange against India (23). But, besides this increase of drafts, or "Council bills," there has been, since 1875, a great collapse of the London prices of Indian produce; which, as explained in answers 29 and 30, has driven the exchange down much lower; and it is now about 17 per cent. below the average of the 20 years prior to 1875. This could not have occurred if the currencies had had the power of automatic adjustment, and it has not been, and cannot be, rectified by the transmission of specie, as explained in answer 35; but the exchange would, nevertheless, slowly return to its normal rate of 2s. the rupee, as London prices improved, were Competition of silver prevents recovery.

it not for cheap silver, of which India, so long as her mints are open, cannot resist taking the whole quantity rejected by other nations; enlarging her sales, at reduced prices, to force produce on the market. This, by further lowering the exchange, adds to the losses of the Government in remittance, and, by swelling the Indian currency, raises prices there; which has the same effect on the balance of trade as the fall of prices in England.

Effects of silver competition.

107. Q. Do you mean to say, then, that no silver ought to be sent to India?

How much silver ought to be sent to India?

A. No. India is rapidly increasing in commerce and wealth, and must add to her currency; but this should be done without unnaturally lowering the exchange: which virtually *taxes the people to pay a bounty on exports*, for the benefit of foreign nations.

108. Q. How can the requisite supply be given automatically, if silver be not freely received for coinage?

How the proper quantity can be regulated automatically.

A. By freely selling bills yielding coined rupees at a fixed price for English money (89); coining silver, and permitting the coinage of gold, at the same price. By this means the competition between silver and bills would be put a stop to; and the Indian standard would be of gold, though the currency would be for the most part of silver.

109. Q. Would not the rupees, then, be of more value than the silver contained in them?

Rupee "tokens"

A. Yes. They would be of more value locally. Outside of India they would not command their local—only their metallic value; but within the empire they would always be worth the gold paid for them.

110. Q. It has been stated that the "par" of the rupee was never more than 1s. $10\frac{1}{2}$d. How

Erroneous statement of the value of the rupee, corrected.

can you reconcile that statement with your own, that the currency is fixed by the tariff of prices at 2s. the rupee.

A. The writer who made that statement must have had in his mind a quasi "intrinsic par," reckoning silver at 61d. per ounce. But this would not be correct, even if there were such a thing as an "intrinsic par," because 61d. is the London instead of the Indian gold price of silver, and silver is much dearer in India than in London, and has been as much as 4 and 5 per cent dearer, while gold is cheaper. Hence the Indian intrinsic value of the metal contained in the rupee would be 23¾d., and the rupee itself, reckoning the seignorage and mint charges, would be more than 24d. (vide, 67 to 71).

111. Q. Well; that is the value on which you say the proper ratio of Indian and English prices is fixed; but as silver is not now 61d., but only 52d. per ounce, if you maintain the gold value of two shillings for the rupee, will not that be an artificial value? **Artificial value.**

A. That depends on what you mean by an artificial value. If you mean that it is more than the world wide saleable value of the metallic contents of the rupee, it no doubt is artificial in that sense. But if I say that it is the value *actually paid in gold* for the rupee, and for which it may be exchanged, I think it may be called a *real* value.

112. Q. But is it not contrary to sound economic principle to allow the chief currency of a country to be of an artificial value? **"Tokens" may circulate with gold.**

A. No; not when the "token" coins are associated, in concurrent circulation, with standard international coins of full metallic value. I think your question proceeds from a confusion, or rather want of discrimination between standard or international coins and purely domestic currency. The former ought to be of absolutely full world wide value; the latter ought, purposely, to be of an artificial value.

113. Q. What good purpose can possibly be attained by making coins of an artificial value? Use of "tokens.

A. To prevent their being exported, or put into the crucible; and to avoid the very serious embarrassments suffered in France and America by the denudation of their currencies; the likelihood of which would be much greater in these days of electric cables, the Suez Canal, and vastly enlarged trade; and the consequences far more serious for India than either America or France.

114. Q. No doubt, making the coins of a reduced foreign value would prevent their exportation; but would not silver rupees, which cost two shillings but only contained silver worth 1s. 8d., lose value compared with silver coins, the produce of native mints, containing a greater quantity of silver? Compared with other coins.

A. No. Uncurrent coins or medals might be bought and sold at any prices expressed in rupees; but that would not affect the value of the rupees themselves; as that is fixed by the cost of the gold or bill paid to procure them; consequently, a coin, not legal tender, though containing more silver, might be of less local value.

115. Q. How can that possibly be the case, when they are both silver coins? Local value of "tokens that of gold.

A. In the same way that a piece of paper may be worth more than a large silver coin, if it be procurable *only* by a deposit of gold, and is legal tender for the value of that amount of gold, for which it can be exchanged.

116. Q. You said in answer to question 111 that the rupee would be exchangeable for gold; how can that possibly be effected, seeing that its actual value in gold is only 20d., and you propose that it should be exchangeable at 24d.? Would there not be a rush to the Treasury, to exchange the rupees for gold and export it?

A. No. You must bear in mind—1st. That the proposal is to allow the exchange gradually to rise to 2s. the rupee, telegraphic transfer. When that is the case, no one would demand gold for export, because a telegraphic transfer would be 1½ per cent. cheaper. 2nd. It must also be remembered that there is an abundant supply of gold in India already; amounting to more than 160 millions sterling, including ten to fifteen millions of sovereigns; and when the exchange is restored to 2s. the rupee, the sovereign will sell for 10 rupees, and the gold bullion for 38rs. 14as. per ounce, though not demandable, at that or any other rate. 3rd. That it is proposed to form a reserve of gold as cover for the issue of currency notes, in order to be readily available for export if required. 4th. That the balance of trade has been for the last forty years in favour of India, so that the net result of the transactions of commerce is not the export of treasure, but import, to the extent of 5 or 6 millions sterling per annum. Under all these conditions it is impossible that there should be any difficulty arising from the want of gold for export.

117. Q. Is it not true that a mere "token" currency must be in excess at one time and deficient at another?

A. No. A mere token currency issued by the "nas" of the State, without any regulating principle, may be so; but that could not happen with rupees brought into currency *only* by payment of full value in gold. Local congestion or exhaustion is impossible;* and the fact of the coins forming part of a currency subject to chronic exhaustion (88), besides being exchangeable for gold, for export, puts out of the question the possibility of a general congestion. So that, in the case we are considering, there could be neither local or general disturbance. The rupees would be less liable to it than our own silver currency in England.

Economist, May 6, 1876. *Articles on the depreciation of silver*, p. 29.

118. Q. Can you quote any instance in which a silver coin has circulated at a higher value than than that of its metallic contents? Practical instances of success of the principle.

A. Yes. Not to mention our own silver currency, as well as that of France, a silver token currency, without the circulation of gold coins, has now been in use in Java and Netherlands India for some years; and the official report of its practical working, submitted to the House of Commons on the 12th August, 1879, says: "*Up to the present date the working of the measures taken with reference to the East Indian monetary system leaves little or nothing to be desired.*" "*The value of the silver florin is not defined by the value of the silver which it contains, but by that of the florin in the gold standard piece.*"

119. Q. Are you, then, of opinion that India ought to be provided with an artificial currency? Indian domestic currency needs protection.

A. I am decidedly of opinion that India's domestic currency ought to be protected, by being more or less what you call artificial, and also based on gold; and that she should have enough gold coinage for international use, for which only a small stock would be necessary.

120. Q. Cannot this measure be postponed to a future time? Evil of postponement.

A. Not very long. Unless the privilege of sending out cheap silver to India be put a stop to, the bulk of the currency there will, in time, be so much augmented, that the value of the rupees will sink to that of the price paid for them (just now 1s. 8d.), being always uncertain and variable. By the time the Americans have coined as much silver as they need, the price of silver may sink very low; especially if the French and Latin Union should bring into the market any large proportion of their vast surplus. Nevertheless, in the meantime, before either of these events happens, the revival of trade may improve the Indian exchange, and with it, for the time, the price of silver.

Defects of the present Indian currency.

121. Q. Is it not the fact that India already has, in her rupee circulation all the essential requisites of good money, so that there is no need for any change?

A. No. Very far from it—India's rupee currency is *altogether inefficient.* 1st. Because it is quite unfit for her foreign trade with England and, through her, with other countries; from being incapable of automatic adjustment with her, as explained in Answer 35. 2ndly. It is unfit for inland trade, owing to its unwieldiness and great difficulty of transport. 3rdly. It gives rise to the greatest obstruction and injury to commerce, by violent fluctuations of the exchanges. 4thly. It exposes the nation to the ever impending danger of sudden contraction, owing to the monetary exigencies of other nations (*vide* 113). 5thly. It makes India constantly liable to be flooded with cheap silver, degrading the measure of value, and compelling the inhabitants to expend millions of produce, uselessly, in filling up the void caused by the degradation (*vide* 98 and 99). 6thly. It exposes the Government of India to heavy losses in remittance, and the people to additional taxation to make it good. (Essay XIII.)

Indian currency very inefficient.

Will not India's using gold add to its "appreciation"?

122. Q. Is it not very objectionable to allow India to take in more gold for the purpose of using it in her currency, inasmuch as it would add to the existing "appreciation" of that metal?

A. No. India must have a very large amount of gold—and nothing it is proper for us to do will prevent it. She already possesses 160 millions worth, and continuously absorbs it. She requires it for hoarding, for ornaments, and for currency. The last indispensably for her commerce with adjoining countries by land. She no doubt uses it now for that purpose; but as the price of gold in India necessarily fluctuates with the rate of exchange with England, the effect of our not making it legal tender and permanently adjusting it to the rupee, is to excessively hamper and embarrass the inland trade, to the same degree that Indian maritime trade is hindered by the fluctuations of the exchange. It is only to the extent that India's inland and caravan trade may continue to be thus curtailed and stunted, that the refusal to make gold legal tender, instead of silver, can diminish its employment; and now that she is beginning to produce it from her own mines, it is a downright injustice as well as mistake to prevent her making free use of it. She employs only a very small proportion as currency, but she is compelled to do so, in spite of the perplexing difficulties and losses it entails. So important a dependency of the British Empire *must, sooner or later, have a measure of value identical with that of the mother country and the colonies*; and if we do not establish it now upon favourable terms, it will establish itself in due time at a great disadvantage.

123. Q. How can it be proved that the price of gold in India "necessarily fluctuates" with the rate of exchange with England?

The price of gold in India varies with the rate of exchange.

A. When the rate of exchange is 2s. the rupee, a demand bill is worth ten rupees; and a sovereign the same, less one per cent., the cost of freight and insurance. When the rate of exchange is only 1s. 8d., the demand bill is worth 12 rupees, and a sovereign, or the requisite amount of gold to yield a sovereign by coinage, is of the same value, less the one per cent. Thus the price of gold must, of necessity, vary with the rate of exchange.

124. Q. Is there not "momentous" danger in tampering with the currency of a country?

Danger of tampering with the currency of a nation.

A. There may be, in *ignorant* tampering; but no danger at all in well understood measures of reform. There would be the utmost danger in ignorant tampering with an electric torpedo apparatus, but none at all when those who manage it understand their business. At present the currency of India is in a ruinously inefficient condition; and its rectification would not only be perfectly safe, but incredibly easy. The question ought to be thoroughly and deeply *studied:* and it would then be found that it is as foolish to talk of the danger or difficulty of changing the monetary standard of India from silver to gold, as of changing the weight standards of the Indian railways from tons and hundredweights to Indian maunds.

125. Q. Would not bi-metallism produce all the effects you wish for, in regard to the Indian exchange? Bi-metallism.

A. Bi-metallism, *if it could be safely established,* would be an incalculable benefit to English commence with all silver standard countries. According to the scheme proposed, it would raise the Indian exchange to 1s. 10⅝d.

126. Q. Would that not be an immense advantage to India? Effect on India of bi-metallism.

A. Not as a final measure. As it has been already shown (68 to 72), that two shillings is the proper equivalent for the rupee, and that it may be easily and permanently restored to that rate, and based on gold (88 to 93); it follows that to establish the "par" at 1s. 10⅝d. would cause a loss to India, in her remittances of 16 millions sterling, of very nearly a million sterling per annum. It would also fix an excessively inconvenient ratio between the Indian and English currencies, of 10·60773 to 1, instead of the extremely simple and easy one of 10 to 1.

127. Q. What are the principal objections to bi-metallism? Objections to metallism.

A. A great many objections have been urged against it, with much ability.

128. Q. Will you mention one or two of the more important ones?

A. The most important theoretical, and in its consequences, practical objection, is the fact of its being a violation of the principles of free trade and political economy, by the endeavour to fix the price of one commodity in relation to those of others.

129. Q. What practical evil is supposed to follow from this? **Consequences of the objection.**

A. Nations establishing the practice of constantly buying and selling the two precious metals on fixed terms would be drained of the more valuable metal, and flooded with the cheaper one; and if the relative values varied from time to time, above and below the ratio adopted, they would be subjected to frequent variations of their currencies, from silver to gold, and from gold to silver.

130. Q. What other objections are there? **Other objections to bi-metallism.**

A. It has been objected that the stability of the system would be most uncertain; because it would depend upon the persevering adherence to it of other countries, over which we have no control. Moreover, that it would stimulate the production of silver and discourage gold, to the advantage of America, and the loss of our Australian colonies. Again, that it would lower the value of gold in the world, and increase that of silver, leading to a general enhancement of prices in gold standard countries, and a reduction in silver ones.

131. Q. Are these all the objections raised against the proposal? **Declared impracticable**

A. They are the most important ones, except that which is founded upon all the rest, namely, that its general adoption is *impracticable*.

132. Q. Has any objection occurred to you besides those you have already mentioned?

A. There are two which deserve some slight consideration, although not of much importance.

133. Q. Will you be so good as to state them?

A. One is the inconvenience which would be experienced if the gold and silver coins of various countries, being legal tender for the largest payments, might be substituted for one another at the option of an individual. For example, a collapse of prices in England would naturally lead, in the first instance, to remittances of specie from abroad, possibly to the amount of many millions sterling; and if the arrangement proposed by Mr. Seyd were in force, might take the form of a deluge of 4s. silver pieces; the forced acceptance of which would be the cause of great dissatisfaction.

Other objections.

134. Q. What is the other objection?

A. The other objection is rather more serious; namely, that, as in some countries—for instance, India—the chief part of the currency would consist of silver coins, which would answer, not only for the innumerable domestic petty payments, but also for the settlement of international transactions, it would follow, if the coins were of the same value abroad as at home, that they would be liable to exportation on a grand scale, to meet the monetary exigencies of other nations, as it happened to France in 1862, and from another cause in America; and the inhabitants might be put to the greatest inconvenience and distress (113).

Prospects of bi-metallism.

135. Q. Do you think there is any prospect of the adoption of bi-metallism by a sufficient number of leading nations to warrant a trial of it?

A. It is very doubtful whether it would be agreed to by a sufficient number of them as it stands. It would require modification to remove difficulties, and promote its general acceptance.

136. Q. Do you think it practicable to suggest such modifications? Modifications necessary.

A. Yes. Much might be done to reconcile bi-metallism with existing currencies; and thus lead to its easier introduction into different countries. Its safety would then depend upon the proportion, as to numbers and influence, of the nations which adhered to it, compared with the rest of the commercial world.

137. Q. Can you state any modifications which you think could be made with advantage? Principles must be first established.

A. As just intimated, I think it possible that modifications might be made which would tend to remove many objections; but it would be useless to propose them until the principles on which they should be based had been thoroughly sifted, and sanctioned by competent authority. There are a very great many points to be considered on this question, and these would occupy too much time and space to be now entered upon. One thing may, however, be said; namely, that to cut off the superfluous import of cheap silver into India, would not only not hinder, but facilitate the introduction of bi-metallism, on the footing likely to be acceptable to other nations; if it should hereafter be found practicable. In the meantime the losses and distress caused by fluctuations of the exchange embarrassing both the maritime and inland trade (122) of India—the gradual degration of the currency, and sacrifice of millions worth of produce to fill up the gap (98 and 99)—and the heavy losses by remittance, involving extra taxation to make them good, constitute a grievous and heavy burden upon commerce and the finances of the Empire, and cry aloud for the immediate adoption of some effectual remedy, without waiting for the possible contingency of other nations following the example, by a bi-metallic agreement.

J. T. SMITH.

10th June, 1880

P.S.—A very able article, by the late Mr. W. T. Thornton, C.B., has been published in the *Westminster Review* for this month, entitled, "A New View of the Indian Exchange Difficulty," which in many respects strikingly supports and confirms my views, though in many other points I should be compelled to differ. Thus, the conclusion arrived at, that there is no depreciation of silver in India, and that the low rate of exchange has not been occasioned by it, is clearly shown; but that it is *wholly* caused by the large "tribute," and only to be cured by its reduction, seems, happily, not to be correct; owing to the Author having omitted to notice the effect upon it, of the balance of trade, and the ratio of the prices of commodities in the two countries.

Although it may be true, as the Author points out, that the low exchange has for the last few years been caused by the increase of Council bills, yet this is not a necessary consequence of them; for the bills have only the same effect upon exchange as ordinary bills against merchandise imported into India; and under a proper system, any amount of them might co-exist with an exchange at "par;" and they would do so now, if the currencies of India and England were capable of automatic adjustment with one another.

Hence, if it be true that Home remittances do not necessarily affect the rate of exchange, but are quite consistent with equilibrium, under a proper system, all that the Author says about

"How greatly the investment of British capital on Indian public works must, by necessitating the remittance to England of annual interest or profit on the investment, derange the Indian exchange, nor how grievous would be the effect of the derangement," page 191,

becomes, most fortunately, without foundation.

If the Government of India should be impressed with such an erroneous idea as this, and regulate their policy by the belief that payments in England *necessarily* involve loss by exchange, the fact would forcibly demonstrate the necessity for a close and searching investigation of the whole question.

It is important, also, to notice that the Author's sanguine views regarding the speedy restoration of silver to its former gold price, seem to be based chiefly on the supposition that France and the Latin Union as well as Germany will soon "discover the error of their ways," and return to bi-metallism. But this seems to be very problematical; for there is no evidence of the necessity of the "enormous rise in the price of gold" in the event silver being restricted in legal tender; and in a few years America will probably much diminish her present coinage of that metal; and then nearly five millions per annum more will be thrown upon the market already deserted by Germany, France, and her allies.

But, although the Continental nations be not forced to bi-metallism in the manner suggested in the paper, it is not impossible that a combination might be desired, and India asked to join. She could not accept the invitation, upon the footing hitherto proposed, without great danger; for gold is naturally cheaper in India than in Europe, while silver is of greater value; so that the result would be the gradual loss of her silver currency, replaced by gold. But if the subject be properly investigated it will be found that this evil may be effectually guarded against without violating the bi-metallic principle.

Again, after what has been stated in answers 34, 35, 42, 72, and 106, showing that the great fall in the exchange though immediately caused by the excess of bills, is ultimately due to the absence of the power of adjustment of the currencies of India and England, it is needless to remark upon the mistake contained in the following sentence:—"In the actual circumstances of the case, alterations of its (India's) currency laws will not serve the turn." Unless the reasoning contained in the answers is altogether at fault, it is the want of amendment of the currency laws which is the root of the whole mischief. (*Vide* Sec. IV., pars. 25 and 26.)

20th July, 1880. I. T. S.

P.P.S.—Since the foregoing postscript was written, I have heard of a prevailing impression that the fall in the exchange being caused by the unavoidable excess of "Council bills" interrupting the natural flow of silver to the East, and causing its depreciation, it would be useless by any artificial means to endeavour to arrest the action of "natural causes;" and that, therefore, any attempt to "tamper" with the Indian currency, while it might lead to unforeseen evils, could not possibly do any good. This is a grievous mistake. There is a *natural* flow of treasure to the East, and just now especially to India, owing to the demands of an expanding commerce, and *this* flow it would be most inexpedient, if not impossible, to prevent; but, besides this, there is another flow; not naturally but *artificially* caused by the peculiar relations of India to England—as follows: When prices in two countries are in equilibrium, so that exports equal imports (Council bills are imports), they are maintained in equality by the transmission of specie either way. Thus, if prices in general rose in England, or fell in India, it would lead to the transmission of specie to India till equilibrium was restored. *Vice versâ,* if prices in India rose, or in England fell, specie would be sent from India to this country. So it *ought* to be, but so it cannot be, as explained in answer No. 35. The *natural* process is—first, a fall of the exchange against the country whose prices are too high, and—secondly, this fall corrected by the transmission of specie.

But what is the consequence of the stoppage of specie remittances from India? The answer is, the exchange cannot be corrected, prices cannot be equalized; but, on the contrary, as silver has not a sufficiently independent price, it falls with the Indian exchange, and being irresistible legal tender in India, forces itself into the currency there, where it can compel a market; so that, at the very time when a stream of specie from India is the natural corrective, and indispensably necessary to rectify the exchange, silver establishes an unnatural flow the wrong way, tending to further raise Indian prices, and aggravate the previous difficulties. It is *this unnatural* stream which I propose should be stopped; and, also, by making the standard of value and prices the same in both countries, for ever put an end to the difficulty of automatic adjustment.

This harmony of the Indian currency with those of England and Europe has been the earnest desire of the Government of India for the last 20 years. The late Mr. James Wilson, when Indian Finance Minister, declared it to be the most desirable arrangement, but that he could not possibly effect it; and, as it was impracticable, he would even have adopted a "double standard," conscious as he declared himself of its many difficulties, rather than exclude gold altogether from the Indian currency; though he, at the same time, objected to its introduction on such a footing as to give debtors an advantage, from its then anticipated depreciation.

What was absolutely impracticable in Mr. Wilson's time, is incredibly easy now; and the Government of India have the opportunity of introducing an effectual remedy for all the existing terrible evils of the Indian system—not by arresting the action of "natural causes," but by imperceptibly removing an unnatural and grievous obstruction to them; and that without the smallest appreciable disturbance, except the very gradual rise of the exchange; and without the slightest improper interference with the existing interest of any person whatever; but, on the contrary, the protection of their subjects from the very derangement of contracts and disorganisation of trade, which have been erroneously charged against the scheme by some persons who have not sufficiently considered it, or who have been unacquainted with the facts essential to its proper understanding.

There is an immense deal more to be said, on the intimate details of this very interesting question, than it is possible to compress within the narrow limits of this second postscript.

I can only add that, if they be probed to the very bottom, the result will be that the innumerable apparent objections, which unavoidably suggest themselves, will one by one disappear: and if it should be possible to discover any offsets to qualify the most sanguine expectations, they will shrink into insignificance in comparison with the advantages secured by the measures proposed.

J. T. SMITH.

2nd August, 1880.

APPENDIX I.

Proposal for the Improvement of the Indian Exchange.—1. The proposal referred to in the Preface was the following:— That the coinage of silver bullion tendered to the Indian Mints by private individuals should be suspended, so as to cause all rupee remittances hereafter to be made by "Council bills;" the Secretary of State for India sending out precious metal for coinage, to meet the bills, when necessary.* By this means, as trade could afford it, a gradual rise of the rate of exchange would take place; and when it had reached 2s. the rupee, gold would be taken to the Mints, which would be open from the first for its purchase or coinage at 38 rs. 14 as. per standard ounce.

2. At the rate of 2s. the rupee, the Secretary of State would grant bills "ad libitum" to all comers; and the public would afterwards have the choice of gold or silver coins at precisely the same expense.† Provision would be made for a depot of gold bullion or coins, by making them the basis of currency notes, or by other means; so that the gold should be available for export, if required; and, in time, as the accumulation of gold coins in the country might warrant it, the rupees would be gradually limited in legal tender to such an extent as might be thought necessary.

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3. In his issue of the 11th November, 1876, the Editor of the "Economist" published an elaborate condemnation of the above proposal, which he stated was open to "the gravest objections," of which he specified four. The truest answer to the whole is, that both the scheme itself and its operation were misunderstood by the writer. The two first paragraphs are as follows:—

> "It has been suggested that the coinage of rupees should be "suspended in India; that their importation should be pro-

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* There would, I think, be no objection, in certain circumstances, to the Government in India purchasing silver for coinage, at the London market price of the day, and 2s. the rupee. N.B. Council bills are purchased in England by *gold*.

† The cost of a telegraph transfer of 100 rs., or £10 at 2s. the rupee, taking gold at £3 17s. 9d. per standard ounce, is represented by 1234·72668 grains of standard gold; and the quantity of standard gold delivered to the Indian Mint to produce 100 rs. at 38 rs. 14 as. per standard ounce, without seignorage or charge, would also be 1234·72668 grains.

"hibited; that gold should be coined for any one who will take it "to the Mint at a fixed rate (say 2s. the rupee); that both rupees "and gold should be legal tender, which everyone must accept, "but that, for the present at least, no one should be able to de-"mand gold. And in this way it is hoped that a gold standard "would be introduced into India, without the Indian Government "having to buy gold to exchange for silver, the cost of which "would be more than it could afford.

4. "But when examined, it will be seen that this is a plan not "for introducing into India a gold standard, but a double "standard of a peculiar sort. Though the coinage of rupees is "suspended, they are still to be legal tender, and their value will "therefore continually rise; they will be 'monopoly coins,' so to "speak, circulating at a scarcity value, and they will so circulate "concurrently with gold. And this is to be the perpetual currency "of India, for the only motive for thinking of it is that silver is "already about to fall greatly in value; its very adoption would "for a very long time cause such a fall because it would close the "Indian market against silver—and therefore the cost of buying "gold to exchange for the rupee currency of India will be years "hence, more insuperable than it is now.

"But to this plan there are the gravest objections. First," &c., &c.

5. Here it is stated that what will ensue is a "double standard of a peculiar sort." This could not be the case, unless the currency were procurable by delivering either of two metals. A standard of value, regulating a currency, is a specified commodity, by which the currency is freely procurable; the value of the latter depending upon the quantity supplied compared with the demand for its use. It is the *essence* of a standard to regulate the currency by the coins flowing in till the level of prices is raised to correspond with it. When coins can no longer be procured by the standard, regulation by it ceases—inasmuch as their value in exchange is governed by the number in circulation*—and when regulation by the commodity ceases, it ceases to be a standard. If there were a double standard, the public would have an option to obtain the currency by delivering either of two commodities, and they would invariably choose the cheaper

* This is to anticipate a superficial answer which might possibly be attempted, to the effect that a yard may continue to be the standard, although it ceased to be supplied. Ignoring the fact that the quality of which gold is the standard measure, is not palpable—that we cannot measure a sovereign against a pair of boots—but is essentially regulated by the ratio of supply to demand.

one. If standard coins of two metals were circulated, the cheaper would drive out the dearer.

6. In the case in question, there would be two legal tenders, but not two *standards*, because the currency could only be procured by one—gold (86). The mistake seems to have arisen from the erroneous idea that the value of a legal tender domestic currency depends upon the consciously recognised value in exchange of the substance of which the coins are composed, instead of upon the ratio between supply and demand. Appendix 2, par. 13.

7. The misconception that the "monopoly rupees" will circulate at a "scarcity value" is accounted for by the writer not being aware that there would be no scarcity of rupees; for that they would be procurable "*ad libitum*" (65) for English money. The facts mentioned in answers 67 to 71, 91 and 96, show that it is not the rupee which would "continually rise" in value, but the *rate of exchange* only.

The "Economist's" first objection is stated as follows:—

> 8. "A currency of 'monopoly coins,' circulating much above "their cost value, is sure to cause their forgery. This is as certain "as that a high tariff will cause smuggling. If silver should fall "enough to make this scheme worth thinking of, the gain by "coining rupees in India would be very great, and we may depend "upon it capital would go into the business. Some of the "shrewdest people in the world—the American producers of "silver—would have an interest in managing it, and we may be "sure they would manage it. The case must not be confounded "with that of a 'token coinage' of silver, such as we have in this "country, because our silver coins are only legal tender for "small sums, and therefore great masses of them are useless. "But in the plan supposed, 'monopoly coins' would be the main "currency of India, and any quantity of them could be got rid of. "India would seem to have most unusual facilities for the opera- "tion, for there are native states imbedded in our territory "where we hardly know what happens, and there is a rich "monetary class of shroffs and bankers who would feel no effectual "moral scruple against disposing of illicit rupees. The moral "objection to such a currency as one of perpetual use is very "great, for it is an incessant temptation to diffused fraud, and "this evil would be fastened on India for ever."

9. A complete answer to all this is that, as a matter of fact, Indian rupees are exceedingly difficult of manufacture; so that unlawful coins to escape detection cannot be made profitably on a *small* scale, or safely on a

large one. Besides this, secondly, "the shrewdest people in the world" have never, during the last five years, attempted the coinage of French five franc pieces, though legal tender for the largest sums*; and what is still more remarkable, these coins have been quoted from the beginning at their full currency value, 59d. per oz. in the *London* market. Thirdly, As to the "native states imbedded in our territory where we hardly know what happens," the writer could not have been aware of the appointment of a British Resident at each Native Court, and the ample means of information at the command of the Government of India; or he would have known that it is as absurd to believe in the existence of a Mint without their knowledge, as that a manufactory of steel rails could be worked in secret in the highlands of Scotland. Fourthly, That even if the "shrewdest people in the world" did, in spite of the risk of confiscation, introduce a few thousands of unlawful coins into India, they would do *no harm*, except rob the Government of a profit on coinage they have never yet received.

10. The second objection stated by the "Economist" is as follows:—

> "Secondly—The confusion in trade it would cause would be "extreme. Suppose it were now enacted that no more rupees "should be coined, and that gold should be coined at 2s. the rupee, "the export trade now stimulated by the low exchange would be "stopped, for the exchange would gradually rise; nor, for a time "at least, would the import trade to India find a corresponding "gain, for a great uncertainty would be produced, in which no "new business would be created though old business would be "stopped."

11. The Right Honourable Mr. Goschen, in his speech in Parliament on the 12th June, 1879, acknowledged with sympathy that the violent fluctuations

* An amusing illustration of the proverb that "none are so blind as those that won't see" is afforded by those who, when the objection of unlawful coinage of genuine rupees is answered by referring to our own half-crowns and shillings, reply that they are not attempted because "they are only legal tender for small sums, and, therefore, great masses of them are useless." When they are referred to the like exemption from forgery of French five franc pieces, they say, "Oh, yes," but it is not *customary* to make large payments by silver in France—as if large payments were more likely to be customary in India—described as too poor to use gold at all; or in any country where gold coins or notes to make such payments can be had. If forgery and illicit coinage of genuine rupees, for a profit of 20, or even 50 per cent., were so likely in a properly governed country, how does it happen that illicit distillation, where the profit is 500 per cent., is so little heard of?

of the exchange of late years had been "disastrous to many," and "a great trial to the whole Indian trade." * Such being the case, is it likely, I would ask, that any measures would make matters much worse? On the contrary, instead of the result predicted in the first sentence, the very opposite would be realized. It is undeniable that when my proposal has been carried out, when the exchange has risen to, and has become *fixed* at 2s. the rupee, all the confusion and uncertainty arising from violent fluctuations of the exchange will be at an end? As for the export trade being stopped, a reference to answers No. 90 and 91 will show that this apprehension is quite unfounded.

12. The third objection is thus stated :—

> "Thirdly—this would deprive India of the great advantage "she will gain, if the present state of things continue, as the "*entrepôt* through which silver is introduced into the East. This "is always the effect of a lowered value of the currency-metals. "The first persons who get them from the mines gain much; "those who buy them from the mining people gain much too; "and so on until the depreciation is effected. In the case "of India, the importation of silver will gradually raise silver "prices; this will bring imports into India from other countries "where they have not risen. For very many years England "has in this way derived the greatest advantage from being "the first country to which the Australian gold was sent, and "from which it was diffused. The Indian Finance Minister is "no doubt troubled by the fall of silver, because he has to buy "gold in London, but India itself will probably be benefited by "it, for it would give her an easy money market, and an extending "trade for exports and imports, which the suggested scheme "would spoil."

13. In these remarks the writer seems to have overlooked the most important point of the late Professor Cairnes' Essay on the "International Results of Depreciation,"† the effect of which is to lead to an opposite

* The following is an extract from the Report of the Royal Commissioners who represented H.M. Government at the International Conference held in Paris in August, 1878 :—"The derangement in mercantile operations due to the position of silver at this moment, is so great and so universal, that all contributions made in the direction of clearing up the subject would be invaluable, and hailed with satisfaction by all who are interested in the question."

† The following is one of various passages to the same effect. "Returning once more to the general question, we may consider the following conclusions as established: First, that the effect of the cheapening of gold upon commercial countries being

conclusion to that suggested by the "Economist." Instead of an universal spread of *gain*, it is a spread of *loss*, duly distributed in the end, and a gain, only in an exceptional case. If a mountain's weight of gold were suddenly exhumed, the miners would exchange it for consumable wealth, which the nations who took it would lose; for they would be none the better for a double supply of gold. It would be only in the exceptional case of one country having procured the new gold on easy terms, being able to repurchase with it commodities at former prices, to an extent more than covering the loss by the final enlargement of her currency, that any gain could be made.

14. The "Economist's" statement might be correct if it were confined to the spread of gain by the profits of buying and selling silver in ordinary commerce; but when he speaks of "raising prices," he refers to coinage, which, instead of gain, involves the loss mentioned above There is nothing in my plans to prevent India becoming the *entrepôt* for silver for ordinary trade. Were she possessed of silver mines she would attract imports in exchange for the metal; but not having them, she can only procure it by sending exports to pay for it, and give it away again in exchange for imports. This is ordinary commerce.

15. In regard to flooding the currency and raising prices, to attract imports, this could not take place to more than a very trifling extent; otherwise, we should have to assume that during the slow process of raising prices, silver from the mines was seeking the markets where prices are higher, or in other words where it would exchange for fewer commodities, and passing by or avoiding others where it would exchange for more. In regard to India, the owners of the silver must not only do this, but if they allow it to be coined, they must submit to a mint charge of 2¼ per cent. which would be lost on exportation.

16. For these reasons, it is evident that the "Economist" was in error in contending that, by limiting the coinage of silver I should deprive India of a source of gain. My proposal is not to prevent the coinage of silver (see para. 1 and answ. 65)—and limiting *excess* of coinage would not only not rob India of a gain, but would save her from a loss.

16. Fourth objection.—The fourth and last objection of the writer in the "Economist" is stated as follows:—

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to compel them to enlarge their metallic currencies, for which enlargement they must pay by an export of their productions, each country will endure a loss upon this head to the extent of the additional sum which may be requisite for each."—Essays, Ed. 1873, page 91.

"Fourthly—The currency so introduced would be a very bad "one. There would be one currency fit for foreign payments— "the gold—and another not so fit. The 'monopoly coins' would "be unexportable, and so, when anyone wanted to make a foreign "payment, he would have to get gold, which, as a rule, would "make gold at a premium. The effect would be just like that of "a plan, often discussed formerly in England, viz., making the "notes issued on securities by the Bank of England (the "£15,000,000) inconvertible—the rest remaining convertible. "The monopoly rupees would be of limited number and artificial "value, just like the security, or Government notes, we used to "discuss, and their effect would be exactly what Lord Overstone "predicted in 1857 in his evidence on the Bank Acts: 'Our "'affairs would then go on very much in the way that a man "'would walk with one of his legs six inches shorter than the "'other. One set of notes would circulate at a depreciation "'compared with the other set of notes; hence great incon-"'venience and confusion would arise.'"

17. "4050. What would be the effect of it?—The effect would "be that you would have paper money of two different characters "in the country, not of equivalent value; not circulating in-"discriminately each for all purposes, but some useful for one "purpose and some useful for the other, and that there would be "intolerable confusion. A man would have Government notes, "and he would present them to another man in payment; that "man would say: 'I do not want Government notes; I want "'to make a remittance abroad; I cannot get bullion for those "'Government notes; I will not take them.'"

18. "4051. Are they both to be a legal tender?—They would "both be a legal tender as far as the Government is concerned, "but the Government note would not be a legal tender between "individuals. Then what is that individual to do? The other "man says to him: 'You must go and get me the other notes; "'either you or I must pay a premium for them."

19. "4052. What would be the harm of that?—The harm "would be enormous injustice and intolerable confusion.

20. "In the plan now suggested—monopoly coins being com-"pulsory tender—gold not being demandable—it would be settled "which party should pay the 'premium.' Everybody would be "obliged to take the purely domestic medium of exchange, and

> "to buy with it the medium which is also of foreign use. But
> "in other respects the evil would be exactly what Lord Overstone
> "describes. There would be two currencies in the country with
> "different values, and prices in one would be, as far as the
> "discrepancy went, different from those in the other.
>
> 21. "For a short time, and during a period of transition, we can
> "quite imagine that this inconvenience might be endured. But
> "the present plan is by its essence a permanent plan—a plan for
> "making a currency for India for all time; and then an inherent
> "defect of great magnitude such as this becomes a most grave
> "objection. As Lord Overstone said of the old plan—'Then, you
> "'would have a certain proportion of the monetary system of the
> "'country circulating at a discount; I cannot conceive a greater
> "'state of monetary disorganisation than that.'"

22. To this very long argument, which is an attempt to fasten upon a proposed silver and gold currency the arguments used against the issue of two different kinds of bank notes for the same amount to circulate side by side, the answer is, that when my plans are carried out, the Indian currency will be identical in principle with that of Great Britain. It is true that "one currency would be fit for foreign payments—the gold—and another not so fit," just as it is in England. It is also true that, until the rate of exchange has risen to 2/-, gold would continue at a premium, gradually diminishing; but when that point had been attained it would be at "par." If reference be made to answer No. 116, it will be seen that Lord Overstone's difficulty could not occur. In fact his evidence applies to quite a different question, and is, therefore, inapplicable to my proposal.

23. The following further remarks contain the final expression of the "Economist's" opinion, and prove that he had not correctly apprehended the working of the measures proposed:—

> 75. "No doubt it is said the Indian Government may 'regu-
> "'late' the currency; that it may withdraw rupees from circu-
> "lation; that it may add to the gold in circulation, and so
> "equalise the value of rupees and gold. But to succeed in such
> "an attempt, the Indian Government would want to know the
> "amount of currency required for foreign payments, which is
> "that which causes the difference between silver and gold; and
> "this they never could know. And American experience of
> "'gold sales' and greenback withdrawals is a great warning
> "against giving any Government the power of arranging the
> "currency. It is sure to injure the good repute if not the real
> "good faith of the Government (for it necessarily creates pecu-

"niary secrets of great value), and nevertheless it is not at all "sure to attain its end, and to equalise as it is intended the two "kinds of currency. For these reasons, we cannot think that "the suggested plan for a new Indian currency would be a good "one, even if it could be shown that silver was sure to be "permanently excessively depreciated. And as the prepon-"derating probability seems at present to be, that it will *not* be "so depreciated, we are still more of opinion that it would be "unwise to begin a policy on the face of it, and almost admittedly, "so anomalous."

No greater mistake could be made than to suppose that it was intended, or would be in the slightest degree necessary, that the Government should interfere to regulate the currency. If reference be made to answers 85, 86, 89, and 91, it will be seen that the coinage of rupees and gold would be entirely regulated by the wants of trade, and that the Government would take no action at all in the matter, further than by selling bills "*ad libitum*" to all comers, and allowing the mints to receive gold freely at the mint price. It would have nothing whatever to do with, and no occasion to know the amount of currency required for foreign payments, which would be automatically arranged by commerce, as it is in England.

In regard to the opinion stated in the last paragraph, I may observe, that enormous as the losses now are which arise from the dislocation of the Indian and English currencies, it was from the very first (Essay I, page 3) stated by me, that they were not the only, or chief reason necessitating the change recommended; but the "inherent mischief" of an arrangement which subjects the enormous and daily increasing commerce of England and India to constant vicissitudes in the prices of the two metals constituting their respective standards of value, and the incessant liability to the embarrassment of all contracts connected therewith." There are other sufficiently strong reasons referred to in answer 121, to justify measures, which, instead of being "anomalous," as supposed by the "Economist," are simply the practical application of the principles advocated in the late Lord Liverpool's famous Essay on the "Coins of the Realm."

24. The whole of the "Economist's" objections have been fully stated above. The reader will be able to judge whether the first, which is the only one having any real bearing upon the scheme, is of the least practical importance; and, as to the rest, whether or not I am right in asserting that they have no application to it at all. Similar misapprehensions, easily explained, will be found to attach to every one of the adverse opinions which have been expressed by even the very highest authorities.

APPENDIX II.

ON THE LOCAL VALUE OF A LEGAL TENDER* CURRENCY.

1. The particular question herein offered for discussion is, whether there be any inevitable and *necessary* connection between the local or domestic value of a metallic or other legal tender currency, and the intrinsic value of the materials of which it is composed. It is generally held that current coins are mere commodities, or bits of metal, and nothing more; and consequently, that any arrangement whereby coins are intended to circulate at a higher rate than their world-wide intrinsic value, must be radically unsound.

2. Instead of this I believe that there is not necessarily any *direct* connection between the local value in exchange of a legal tender currency, and what is termed the intrinsic value of its materials. I would submit that the natural value of a currency, like that of all commodities, depends upon the ratio of supply to demand; and is governed, eventually, by the cost of production. Cost, that is, of procuring the coin, token, or instrument of exchange, whether that cost be made up of only the prime cost of the material composing it, or include a tax or royalty at the mine, an export duty from the country, a customs duty on landing, or a charge, reasonable or otherwise, for fabrication.

3. In those cases where current money is freely procurable by the public, and introduced only by the action of commerce, its value in exchange for commodities would be governed, as above stated, by the law of supply and demand; the supply being limited by the difficulty and cost of production, and the value, as against commodities, being inversely as the quantity of the currency so introduced and limited. In other cases, when the instruments of exchange are arbitrarily increased or diminished by the Government, their value seems to be simply dependent, inversely, on the bulk of the money so created; and prices in gold and silver governed by the amount of precious metal given to procure the currency.

4. In the case of standard coins freely issued, it is the difficulty and expense of procuring them; in other words, the cost of the metal and

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* Extract from a paper prepared for, and submitted to the Statistical Society, on the 26th February, 1880.

expenses of manufacture, which limit their supply. In regard to "tokens" or notes issued on the delivery of a "standard," the supply is limited by the cost of procuring the standard to be deposited for them. In either case, whether the instruments of exchange, being legal tender, be standard coins or tokens, their *local* or *domestic* value depends *not* upon the recognized worth of their contents, but upon the limitation arising from the ex-expense of bringing them into use. Thus, an instrument of exchange representing a pound sterling, procurable *only* on the delivery of gold at the rate of one standard ounce for £3. 17s. 9d., is of one and the same local value, whether it be made of gold or paper. As regards the tariff of prices and the regulation of the foreign exchanges, both would be equally efficacious, unless and until, from any cause, the currency became redundant, or was wanted for exportation, for which there would be a self-acting remedy by the export of gold coins, which would be altogether wanting in the case of "tokens," unless their owners were entitled to demand, from the parties who issued them, the gold for which they were bought.

5. The reasons which appear to me to support the above view are the two following. First, the *de facto* ignorance of the public of the cost, or independent value of the precious metals. Secondly, the existence, in many cases, of currencies possessing substantial value in local exchange, though composed of worthless materials. The first of these assertions may appear to be very questionable, in reference to the prevailing impression that we all have a very distinct and precise knowledge of the value of gold and silver; but the truth I believe to be quite the reverse. Very few persons, indeed are acquainted with the actual cost of gold, though, by the help of our currency and prices, every one has a very intimate knowledge of its relation to other things. We all know, for instance, that £3. 17s. 9d. of our currency is equal to the value of a standard ounce of gold, whatever that may be; but what this latter is, the public in general have no means of discovering directly, or in any other way than by its relation to prices. While, therefore, the public can readily compare the values of different weights of standard gold bullion or coins, they are powerless to discover, independently, the ratio between them and commodities in general. That ratio is fixed by the automatic adjustment of the supply and demand; the former, as regards money, being insensibly regulated by all the unknown conditions which constitute the difficulties and expense of its continous delivery in the market.

6. We know that the cost of different parcels of precious metal is very various. Mr. Seyd tells us that many an ounce of gold has been produced

at a cost of not more than one shilling.* Mr. McCulloch tells us that Russian Gold has been subject to a tax of 12 to 25 per cent.; † and if these statements be correct, it would appear that even in regard to the precious metals and coins, the public can have no means of testing their actual cost, but only their relative value, by means of the tariff of prices, which the bargainings in the market establish between them and all the articles of commerce; and that their so-called intrinsic value is merely this observed relation to commodities which they spontaneously command in trade. Hence it seems to be a mistake to say that the value of a currency, even a metallic one, in exchange for commodities, is fixed by a knowledge of the intrinsic value of the coins; because, as a matter of fact, the knowledge does not exist; and it is the self-adjusted price of commodities in money which gives us all the knowledge we have of the value of the latter.

7. As an illustration of the truth here referred to, I may remark, that if an individual could possibly be found who was entirely ignorant of all gold prices, he would be in the same position in regard to his knowledge of gold helping him to deal for the first time with it in trade, as any ordinary person would now be if, without inquiry, he were called upon to price tungsten, palladium, or any other rare metal. Such vague knowledge as he had, though generally advantageous, would be comparatively useless in making a close and satisfactory bargain. It is true that the so-called intrinsic value of coins tells *indirectly* upon their local value in exchange, by acting as a limit restricting their supply, as has been already explained; and the knowledge that this value will be recognised abroad may give them a preference in certain cases, but rarely for domestic use. I think, therefore, that I may be justified in saying that a precise independent knowledge of the value of precious metals is not the basis of the local value of coins or a currency.

8. *Secondly.* The other reason which strikes me as adverse to the theory that the value of a currency is dependent upon the recognised value of the materials of which the instruments of exchange are composed, is the fact of the existence of currencies which have a substantial value in exchange, while the material constituting them is comparatively worthless. I need not specify all the numerous instances. It will be sufficient to mention the inconvertible paper of Russia, Austria, Italy and other States.

An explanation of this fact is sometimes offered on the ground that the instruments of exchange referred to are promises to pay; but this is

* "Decline of Prosperity," p. 90.

† "Dictionary of Commerce," Edition of 1869, pp. 1123-4.

not always the case; and a substantial value holds good in cases where there is no promise, or at least no early prospect of payment—the value here spoken of being of course local, not international.

9. Not only is it true that currencies exist of no real intrinsic value but I believe I might state it as a fact, that there is not a single currency in existence, which circulates at the precise value of its material contents. If we enquire into the condition of the nearest approach to such a circulating medium, viz., our own sovereigns, representing the pound sterling, we find that they do not exchange for the mere value of the metal they contain. If the pound sterling were only worth what the sovereigns contain, the price of gold bullion would be £3 18s. 3d., or more, per standard ounce, instead of £3 17s. 9d. as it is at present. The difference is small, but it shows the principle. Indian rupees circulate at more than two per cent. above their metallic value.

10. In all cases it is the tariff of prices which indicates the value of a currency, without any *direct* reference to the intrinsic worth of the standard. The latter is by no means accurately known by the public, although prices are settled, to the minutest fraction, by the automatic adjustment of supply and demand, and the haggling of the market.

11. Before quitting this subject altogether, it is necessary to remark upon an opinion before alluded to, that a rupee is a bit of silver of a certain weight and purity, with a Government stamp; and that a bargain for rupees is an undertaking to pay a fixed number of such bits of silver. This is quite true, but it is only half the truth, and is apt to mislead. Standard coins are representatives and vehicles of value, intermediary instruments for selling and buying property, at certain rates. When a bargain is made for rupees, the intention of both parties is that the receiver of the coins shall have power to acquire commodities equal in value to those he sells. If, before the debt is paid the value of the coins should materially decline, the intention of both parties would be frustrated, by the coins failing in their duty. For instance, if silver became as abundant as copper, and Indian prices had risen a hundred fold, no one would deny that although the debtor's bargain might by payment of the depreciated coins, be discharged legally, it would not be so justly; and we ought therefore, to amend the above incomplete statement by saying that, in the payment of debts, rupee currency is not mere metal bought as a mercantile speculation subject to change of value, but just the opposite. The rupees are legal claims for the acquisition of property, and their *very essence* is a fixed value; and when they fail to convey that value, they fail in their purpose, and a remedy ought to be applied.

12. Another writer strongly insists that money in the last resort is a commodity. Admitting this truth, still I think the author is not altogether correct. Standard, or international money is a commodity to the extent that it contains the standard. But all money does not, and local money need not contain it. Amsterdam bank money was not a commodity, nor are ordinary bank notes, nor "token" coins fully so. Being legal tender, they are worth what they cost, and they maintain that value when they can legally recover the value paid for them. If all instruments of exchange were necessarily commodities of full international value, trade would be exceedingly difficult, on a large scale. In England, I believe nineteen-twentieths of the more important business is transacted by means of instruments of exchange of no value at all, except as "tokens." Standard coins are useful enough in their way, but they are expensive, cumbrous, and not necessary. Except as a matter of convenience, our pound sterling, if made of paper, would be just as useful as it now is, at a vast saving of expense.

13. I will conclude this paper with the truism, that coins and instruments of exchange for domestic purposes need not be *international.* It might be shown (See Answer 113), that they are better not to be so: moreover that their value in local use is not created by, and dependent upon the recognised worth of the substance of which they are composed, but is exactly regulated by the demand and supply, the latter limited by the capital and labour sacrificed to produce them. It is not denied that the actual presence of precious metal is indispensable for international coins, and gives a prestige and solidity to the instruments of exchange even for local uses; acting also in troublous times as a material guarantee; advantages which are easily mistaken for the essential conditions of all instruments of exchange; but I would remark that this "prestige" does not operate as the measure of comparison with commodities; and that the close valuation and adjustment of prices, quite independently of it, is, in the end, essentially governed by the cost of production. Hence paper notes or "tokens" might constitute a local currency, if based upon a fixed value of gold, and would command in local exchange, the value paid for them, which they would maintain, if redeemable. So also might silver "tokens," under similar conditions, of which we have practical examples on a large scale.

10*th February*, 1880.