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INDIAN FINANCE AND BANKING

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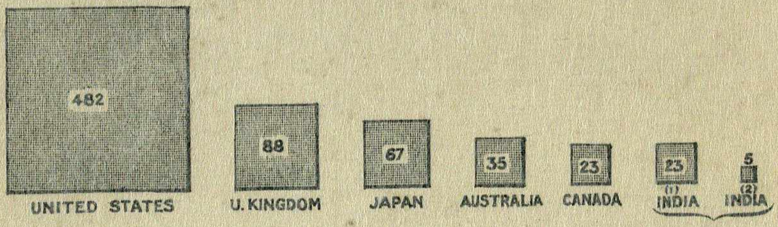
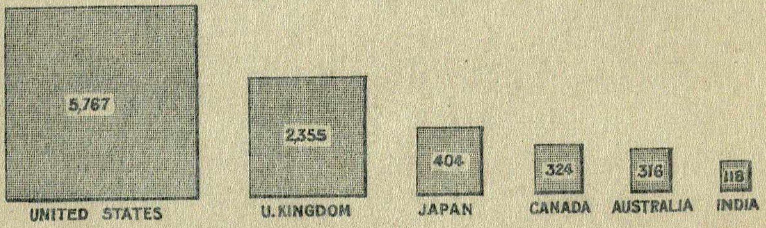
THE BANKING POSITION OF INDIA.

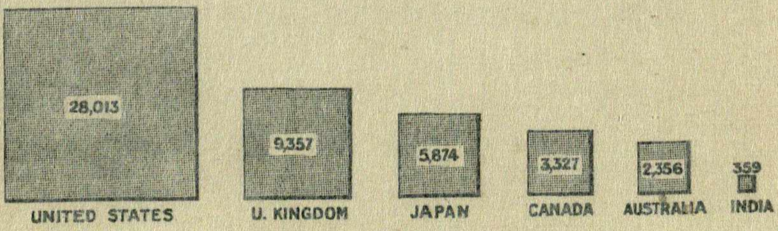
BANKING CAPITAL, MILLION £.



DEPOSITS (BANKS AND SAVINGS BANKS), MILLION £.



TOTAL NUMBER OF BANKS, (INCLUDING BRANCHES) (3)



(1) *Capital includes the capital of Exchange Banks which do business elsewhere than in India.*

(2) *Capital excluding Exchange Banks. The capital of the Presidency Banks and Indian Joint Stock Banks excluding Exchange Banks (the Head Offices of which are outside India) is very small, only £5,000,000.*

(3) *The small number of Banks in India is striking.*

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INDIAN FINANCE AND BANKING

BY

G. FINDLAY SHIRRAS

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PREFACE

I alone am responsible for the contents of this book. It has no official character whatsoever, and has not been examined by the financial authorities of the country.

G. FINDLAY SHIRRAS.

Calcutta,
24*th July* 1919.

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CHAPTER I

INTRODUCTORY

I

The Subject Matter of Indian Finance

Nine times out of ten Finance is regarded, sometimes not without reason, as dull, unmistakably dull, and Indian Finance is no exception to the rule. It is, as Hamlet would say, "caviare to the general," and is ordinarily of interest only to those who have a positive genius for the subject. The man in the street is accustomed to regard it, except when written by a Bagehot or a Hartley Withers, as the work of one who revels in statistics, excogitates taxes, and manipulates budgets. With such a person he is profoundly out of sympathy, and especially is this the case if, even against the dictates of common sense, the financier, like Pharaoh of old, hardens his heart. To speak perfectly frankly, both the man and his subject are of little interest to him, except on the rarest of occasions. The jargon of the text-books bewilders the ordinary reader when the tale is told with a commonplace obscurity of phrase. We must, therefore, try to place on one side pedantic respect for mouldy precedent, and describe the Indian

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financial machine in such a way that he who runs may read, and reading, understand. Sometimes we shall have to say what is very platitudinous, but the gain will be great. We shall see that Indian financiers in the forbidding portals of the Finance Department and in the money markets of our large cities are after all very human persons whose energies, directly or indirectly, are concerned with India's pecuniary resources. In short, they deal with the machinery by which money matters are handled, and the subject is, as Wilson, one of the greatest of India's Finance Members and a former Secretary of His Majesty's Treasury, said over sixty years ago, "not mere arithmetic; finance is a great policy. Without sound finance no sound government is possible; without sound government no sound finance is possible." The scope of the book will include the everyday conditions under which the financial system works, the circulating media such as rupees, sovereigns, and notes, exchange, banking, and the very important questions relating to Government balances and reserves in India and abroad, especially in London, the great money market of the world, where international transactions in normal times are settled.

In view of the changes that are shortly to take place in imperial and provincial finance on the introduction of the Montagu-Chelmsford Reforms, it has been decided to omit for the present any systematic treatment of that branch of the subject relating to public revenue and expenditure. There is, therefore, no mention of that fascinating study—financial devolution from the early days, *i.e.* before 1858 (when not even a messenger on four rupees per mensem could be permanently engaged without the sanction of the

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Governor-General in Council[1]). The influence of the Act of Parliament of 1858, the evolution of provincial finance during the Viceroyalties of Lords Mayo and Lytton down to recent years, have reluctantly been passed over until it is possible to discuss the complete separation to be made under the Reforms between imperial and provincial heads of revenue, and the powers of taxation and borrowing that are to be conferred on Local Governments.

Some of the questions dealt with were in the past matters of keen controversy, owing, firstly, to the policy of half lights, and the absence on the part of responsible authorities of a full and clear exposition from time to time as difficulties were encountered and overcome. As in other currency systems, changes took place very quietly and without any flourish of trumpets. Criticism in the past was also due to the attempt to regard each part of the financial system, such as the paper currency and gold standard reserves in India and in London, as water-tight compartments instead of regarding them as part of the financial system as a whole. A third crop of criticisms was due to the difference of opinion that arose between India and London owing to differences of environment and local influences. Each side thought at times the other side unreasonable, and even short-sighted. As Sir James Meston, Finance Member of the Viceroy's Council, put it in his evidence before the Royal Commission on Indian Finance and Currency, 1913:

> All these tendencies rather meant cross-purposes at times, and did lead to cross-purposes, and there are records

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[1] Cd. 4956, 1909, p. 19, "Memorandum on some of the Results of Indian Administration during the past Fifty Years of British Rule in India."

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of disputes on such points as the proper form of utilising the silver in the Gold Standard Reserve—whether it ought to be utilised as a loan or whether it ought to be utilised against investments in England. In regard to these particular points, I confess I think, reading the papers over again, that we were both right; we both had different points of view which the other side did not see. But what I am asked by the Government of India to say, and what I should like to put on record, is that that period of misconception has very largely disappeared, partly due to better personal acquaintance and personal relations, and also partly due to the larger and more extended system of non-official explanatory correspondence in supplement of the official despatches which pass between the two Governments.

II

The Balance of Trade

Before plunging *in medias res*, let us briefly refer to one or two fundamental facts which are of great importance in any examination of the financial machine. The first of these relates to the balance of trade, a question intimately connected with the maintenance of the parity of the rupee, and the arrangements for meeting the financial requirements of the Secretary of State in London. In ordinary years India possesses a large favourable balance of trade. Her exports of commodities are, as a rule, 50 per cent greater in value than her imports, as will be seen from the following table: [1]

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[1] For further details see my annual review of the Trade of India for the years ending March 31, 1914, 1915, 1916, 1917, 1918, and 1919, issued by the Department of Statistics, India (Calcutta: Superintendent, Government Printing).

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(In thousands of £.)

Period.	Exports, including re-exports (private merchandise).	Imports (private merchandise).	Excess of exports over imports of merchandise.	
			Actual.	Per cent.
Average of ten pre-war years	129,808	85,899	43,909	51
Average of five pre-war years	149,411	97,232	52,179	54
Average of five war years .	149,405	98,534	50,871	52
1916–17	163,434	99,757	63,677	64
1917–18	161,703	100,283	61,420	61
1918–19	169,242	112,689	56,553	50

It is unnecessary to refer in detail to all the items entering into the balance of trade. In addition to the imports of treasure there are the imports of funds. There are also the hazy and hazardous "invisible" imports which cannot be reduced to the dulness of a statistical statement. A large part of these unrecorded or invisible imports consists of services rendered, to pay for which exports of goods take place. Charges for shipping freights and interest payments, investments abroad, remittances for families in England, the premiums of insurance companies, the profits of English banks and other companies or firms, are also of this nature. If we could estimate with accuracy—which we cannot—the value paid for such services as shipping freights, insurance, banking facilities, etc., provided by our creditors, we should be able to put on the opposite side of the account as invisible imports, chiefly imports of services, a value which would explain much, if not all, of the excess of exports over imports. In other words, there are more things in India's balance of trade than are dreamt of in the philosophy of the Indian trade returns. There is, too, the oft-told tale

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of the accuracy or inaccuracy of the trade statistics as actually recorded in the customs returns. An overvaluation of one per cent for exports and an undervaluation to the same extent for imports would in 1919 have affected the net balance by over £2,800,000 or 7 per cent of the balance. Again, the declared values of exports are taken at the market value quoted at the time of export, irrespective of the price at which the goods are sold. If the goods happen to be sold forward at prices lower than the market price for ready goods, as was the case last year in regard to jute manufactures, a considerable error in the values may arise. But all things considered, the Balance of Trade table in a latter part of this book shows that as a result of the war, with the persistent demand on the part of the Allies for goods of national importance and with the cutting off of imports of piece-goods, sugar, salt, kerosene, and a hundred and one other articles of necessity, the gap between exports and imports, or the so-called favourable balance of trade, increased from 1916–17. The reason for the permanent excess exists simply because there are other things to pay for besides imports, such as our liabilities in London, many of which are met by the Secretary of State. These net liabilities in 1917–18 of the Secretary of State or Home charges amounted to £24,000,000, 39 per cent of which was for railways, 26 per cent for military services, 20 per cent for interest on debt (excluding interest charged in the railway revenue and irrigation accounts), and 8 per cent for superannuation allowances and pensions. The following table summarises the main statistical data relating to this important question of India's trade balance :

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(In thousands of £.)

	1909-10 to 1913-14 (pre-war quinquennial average).		1914-15 to 1918-19 (war quinquennial average).	
Net exports (excess of exports over imports) . . .		52,179		50,871
Net imports of treasure and funds		52,464		27,294
(*a*) Council drafts, etc. .		28,416		20,097
(*b*) Treasure :				
(i.) Gold . .	19,242	24,048	5,204	7,196
(ii.) Silver . .	4,806		1,992	
Balance of trade in favour of India		—		23,577
Balance of trade against India		285		—

At the risk of wearying the reader with so many repetitions on this subject, we must again point out that it is impossible to reduce all the items to the humdrum dulness of a definite table. At the same time let us add, as a Parthian shot, that what counts is the relation between exports and imports of every kind. This is the main cause of the fluctuations in the supply of and the demand for the money of one country in another, and so of the fluctuations in the rates of exchange. a final

III

The Absorption of Gold and Silver and Currency

A second factor, not unconnected with the balance of trade, to which a reference has just been made, is the absorption of the precious metals, a question which is a permanent wonder to students of finance in other countries. Year after year, in season and out of season, the precious metals are attracted to

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India, where they are, as it were, lost to sight, being put in a large measure to non-productive uses. Before we examine the statistical data that have been collected with regard to a question which has to be squarely faced, we must remember one or two facts which are not always placed in their proper setting. Firstly, as the Report on Indian Constitutional Reforms [1] shows:

> British India has two and a half times the population of the United States. The United Provinces and Bengal hold each as many people as the British Isles. We may compare Bihar and Orissa in respect of population with France, Bombay with Austria, and the Punjab with Spain and Portugal combined. In England and Wales, four-fifths of the people live in towns. India has many ancient and historic cities, but taken all together they hold but a tiny fraction of her enormous population. . . . In the whole of India the soil supports 225 out of 315 millions, and 208 millions of them get their living directly by, or depend directly upon, the cultivation of their own or others' fields. What concerns them is mainly the rainfall or the irrigation supply from wells or canals, the price of grain and cloth, the payment of rent to the landlord or revenue to the State, the repayment of advances to the village banker, [2] and the observance of religious festivals, the education of their sons, the marriage of their daughters, their health and that of their cattle. . . . The figure of the individual cultivator does not often catch the eye of the Governments in Simla and Whitehall. It is chiefly in the mass that they deal with him, as a consumer of salt or of piece-goods, or unhappily too often as the victim of scarcity or disease. But the district officer and his lieutenants know well the difficulties that beset him, and his very human needs; and in the local revenue offices these make up nine-tenths of the public business done.

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[1] Chapter VI.

[2] Strictly speaking, not a "banker" but merely a moneylender who charges a high rate of interest for money lent.

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In this picture of the Indian countryside we have most of the causes that make for the huge and distressing absorption of the precious metals. India, too, is almost fifteen times in point of area and seven times in point of population greater than the British Isles. This means that the circulating media have to cover vast areas, in many of which, it is true, currency has not yet percolated to any degree. The stream of rupees into these parts is like the stream of an oasis which gets lost in the thirsty sands of the desert. If means of communication are difficult, it is impossible for the circulating medium to move freely when its work, for example in moving the crops, has been completed. Education, too, is still neither widespread nor accessible. When it is remembered that 94 per cent of the population is illiterate, *i.e.* unable to read or write a letter in their own script, as compared with 1·6 per cent in Scotland, 1·8 per cent in England and Wales, 7·7 per cent in the United States, and 17·4 per cent in Ireland, and that it is only in the higher education of boys that our statistics will stand comparison with European countries, with America and with Japan, we have a key to one of the main reasons for the absorption of the precious metals. Education, as nothing else can, will drive away distrust. The perpetual see-saw of good and bad years, due to the vagaries of the monsoon, which is the jugular vein of Indian trade, does not increase the cultivators' trust in things. Added to these facts is the absence of any real banking system. Every one outside towns may be said to be a firm believer in the saying that every man should be his own banker. It is customary to measure the strength of a banking system by the number of branch banks and

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the amount of deposits or liabilities. If this be taken as an index, Indian banking may be said to be in its infancy. There are only 55 principal banks with 304 branches, and the deposits are £107,000,000. Thus India, although it is fifteen times in area and seven times in population greater than the British Isles, has only 93 per cent of the number of banks, 4 per cent of the number of branches, and 6 per cent of the deposits. When in a population of, say, 315,000,000 souls each man is his own banker, it will be clear how in these conditions absorption can increase on the slenderest of rumours. Experience, since the outbreak of the war, has shown this to be so. If on an average each man kept in his house or otherwise hid away two rupees per annum, or say ten rupees for a household of five, this would mean 63 crores of rupees. The three greatest requirements of India at the present time are—(i.) more and better education, (ii.) greater banking facilities, and (iii.) more adequate and easy means of transport. With these inadequately developed, absorption is bound to continue on a large scale, and our resources will continue to be dissipated in this appalling manner. Even in England, where the absorption is trivial as compared with that in India, writers on finance have noted the dangers of the problem. Mr. Hartley Withers in his *Business of Finance* believes

gold has got such influence upon the human mind, owing to centuries of habit and convention, that it is still regarded as the one commodity which can always certainly be relied upon in times of acute crisis. Even now, when it has been made clear that it is every one's duty to pay in all the gold they possess through their bankers, so that it may be used for war purposes, I have been lately told by many quite

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reasonable people in England, among them an economic professor, that they are still keeping a few sovereigns locked up in case of anything that may happen. I believe this prejudice in favour of gold to be so ingrained that any attempt to try to hasten the process by which substitutes for gold are used, these substitutes being mere tokens issued by a Government with no promise to pay gold behind them, might have disastrous effects. It will be a great economy if the day ever comes when peoples have sufficient confidence in their Governments and in their bankers to feel sure that pieces of paper issued by them will always be taken in exchange for goods without any intermediate process of exchange into gold and the exchange of the gold into goods. But it seems to me that it will take about a century of economic education before we can arrive at that ideal, and that if in the meantime we try to take short cuts we might find ourselves landed in a very uncomfortable position. An obvious first step would be to cease the coining of gold for internal use and to make credit instruments convertible into bar gold for purposes of international payment.[1]

If India had not its ingrained fondness for the precious metals, and if it had imported goods in place of such quantities of the precious metals, we should have been much better off. If the metals are hoarded in the form of jewellery, they are put to non-productive uses at the very time when these are required for productive purposes. For a long time to come a certain amount of gold will be required for marriages, which are very costly, since from time immemorial ornaments (not securities) are given to the bride. But with the spread of education and the gradual change in social custom the quantity required may

[1] Hartley Withers, *The Business of Finance* (John Murray), p. 61.
The Cunliffe Committee on "Currency and Foreign Exchanges after the War" (Cd. 9182, 1918, Para. 23) recommends that gold in internal circulation be avoided, and that it should be held in a central reserve as a backing for notes in circulation.

be proportionately reduced. If, however, in place of converting gold into jewellery or hoards, the gold were used in circulation, prices would tend to rise. If gold is idle, it is merely dead capital.

We may now turn to a few statistics with regard to the imports and absorption of gold which have been taken from the tables in a latter part of this volume. The net imports into India in the last twenty-five years have been the equivalent of no less than two years of the world's production. In the same period silver (including silver imported by Government for coinage) has been imported to an amount equal to the production of the world for eight years. The absorption of gold coin and bullion in the last forty-six years (*i.e.* from 1874 to 1919) has been £250,000,000, or five times the world's annual average production in the same period. The gold that has been absorbed has been made chiefly into ornaments or otherwise put to unproductive purposes. It has disappeared from sight. The following table shows the net imports by sea of gold and silver, net absorption of gold, and net imports of treasure (gold and silver) by land frontier :

		(In thousands of £.) (Government and private account.)
Net imports (imports *minus* exports) of gold (bullion and coin) from 1835-36 to 1918-19 :		
(*a*) Coin	203,700	
(*b*) Bullion	112,800	
		316,500
During 25 years (*i.e.* to March 31, 1919) . . .		179,430
Net imports. Ditto, annual average (1895-1919) . .		7,177
Net imports. Ditto, pre-war quinquennial average .		18,767
Net imports of sovereigns since 1900-1901 [1] . . .		94,416
Net imports of sovereigns, annual average in the same period		4,969

[1] Previous to 1900-1901 sovereigns were not shown separately in the sea-borne trade returns.

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	(In thousands of £.) (Government and private account.)
Net imports of sovereigns, pre-war quinquennial average	11,680
Net absorption of gold (coin and bullion), 25 years (*i.e.* to March 31, 1919)	214,770
Net imports of silver from 1835–36 to 1918–19	536,700
During 25 years (*i.e.* to March 31, 1919)	217,825
Net imports of treasure [1] by land frontier during 25 years (*i.e.* to March 31, 1919)	5,037
Estimated total stock of gold in India [2]	93,000,000 oz.
Estimated total stock of silver in India [2]	3,729,000,000 oz.

In the pre-war year 1913-14 the absorption of gold coin (sovereigns) was over £12,000,000. In 1918-19, despite the fact that no real free market for gold existed, the absorption was £3,475,000. Although there was in the twenty-five years ending March 31, 1919, a net average import of silver amounting to R. 13,07 lakhs [3] (£9,000,000), there was, on the other hand, a net export of coined rupees. The average net exports of rupees in the same twenty-five years amounted to R. 1,03 lakhs (£686,000). Owing to the increasing demands in East Africa and Mesopotamia, the annual average export of rupees in the five pre-war years was R. 1,86 lakhs (£1,240,000), and in the five war years R. 2,34 lakhs (£1,560,000). As against this drain of rupees by sea, there is in ordinary times a net import of treasure including rupees across the frontier, a frontier which extends roughly over 6800 miles. Concurrently with the increase in the demand for rupees in India, there has recently been a similar increase in the exports across the frontier, and the returns bring this out in an interesting way. During

[1] Gold and silver are shown separately in the returns of land frontier trade from April 1916.

[2] See also Chapter X.

	India.		London.		Germany.
[3] 1913	1000 rupees	=	£66	=	1320 marks.
1919	1000 rupees	=	£84	=	3360 marks.

R. 1 lakh = R. 1,00,000.

R. 1 crore = R. 100 lakhs = R. 1,00,00,000, *i.e.* ten millions.

the last two years exports of silver from Burma to Western China across the frontier amounted to a total of R. 64 lakhs. This was due to some extent to the Chinese exporters of raw silk to Burma requiring payment in cash. There was, for example, in one month an export of R. 16 lakhs, mostly for the payment of a consignment of Chinese silk.

The extraordinary happenings in currency absorption in the last four years have been mentioned in the press and elsewhere with almost wearisome iteration. The statistics of this should be read, marked, and digested. The effect of a study of the tables is to leave the imagination gasping, but the astonishing, and perhaps fortunate, thing is that in spite of the shortage of rupees the convertibility of our note issue has been preserved. The following table summarises the data of absorption :

NET ABSORPTION OF CURRENCY

(In lakhs of rupees.)

	5 years' pre-war average (ending March 31, 1914).	Year ending March 31.				
		1915.	1916.	1917.	1918.	1919.
Gold (sovereigns)	10,99	7,48	—40	1,37	11,64	5,21
Rupees and half-rupees . .	8,78	—6,70	10,40	33,81	27,86	45,02
Subsidiary coins (four, two, one anna pieces, and single pice) .	62	—21	36	97	99	2,78
Currency notes .	3,39	—3,43	7,87	18,18	15,48	51,70
Total . .	23,78	—2,86	18,23	54,33	55,97	104,71

(— indicates return from circulation.)

The large absorption of rupees, half-rupees, subsidiary coins, and even notes, is very noticeable, and it prompts the question as to why the abnormal

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absorption should have taken place in the three very remarkable years ending March 1919. With the revival of the export trade in the autumn of 1915, consequent on the persistent demand of the Allies for munitions of war, there was a rise in the prices of our staple exports. This is seen from the following index numbers :

	1914.	1915.	1916.	1917.	1918.	1919.
Exports . .	100	102	103	117	125	150
Imports . .	100	101	126	170	211	268

It goes without saying that the currency required to move the crops in these three years, owing to the considerable rise in the prices of exports from 103 in 1916 to 150 in 1919, must necessarily have been greater than in previous years of lower prices. In other words, merchants required more rupees to complete their purchases ; and even had a normal rate of the return of circulating media to banks and Government treasuries been observed, a considerable increase in the coinage would have on this account alone been necessary to finance trade. Secondly, it will be noted that in these three years prices of imports rose from 126 in 1916 to 268 in 1919, or 113 per cent. With this increase in prices there was more than a corresponding decrease in quantity. The volume of imports, for example, in the year ending March 1919, was actually 6 per cent less than in the corresponding period of 1918. The quantity of imported piece-goods—India's chief import—was in 1919 only 43 per cent of the pre-war normal imports. The plain fact was that imports were almost unobtainable from the Allies, and even when obtainable prices were such, owing to the increased cost of production, higher freights, insurance, and congestion on our railways,

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that the consumer was unwilling or unable to pay. Instead of the currency flowing back as in normal times to commercial centres after its release in the purchase of Indian produce to pay for imports, it remained *in situ* and in a state of wasteful inertness. In previous years absorption was, generally speaking, regarded as a measure of prosperity. In the four exceptional years 1916–19 we see that this was not completely true. We have the anomaly that imports were curtailed at a time of large exports. The war has shown that agricultural prosperity by itself is, when unaccompanied by a large demand for imports that is capable of being satisfied, a menace to the whole currency system, just as famine and widespread scarcity forcing rupees into circulation are the reverse. The agriculturist always looks on the rupee as a store of value, protected against climatic vicissitudes and the ravages of rats and white ants. To extract the rupee from hoards he must be given the things which he requires and adequate opportunities of spending. He is ignorant of the methods and benefits of investment.

In addition to these main reasons for absorption in war time, there are others of hardly less importance. The requirements of silver for ornaments have had to be met from metallic currency to fill the void created by the absence of gold and silver imports. The Government of India (Finance Department) Notification No. 1571 F., dated July 11, 1917, prohibited the import of silver into India except in the case of (i.) current silver coin of Government, (ii.) silver coin or bullion imported on Government account, and (iii.) silver coin or bullion imported under licence. Even before the date of prohibition imports of silver on private account fell, because of the rapid rise in

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the price of silver, and the impossibility of obtaining supplies. Some portion, therefore, of the silver metallic currency has been diverted to this purpose, and there is evidence from various sources that such has been and is still being used in the arts, mainly as jewellery. Moreover, it has not been possible to convert as usual part of the profits on the produce exported into gold bars and sovereigns since gold was unobtainable.[1] The pre-war average imports[2] of gold bullion were £9,155,000 (or R. 14 crores), and of sovereigns £12,484,000 (or R. 19 crores), a large part of which was used for melting down into jewellery. This lack of gold, rather than creating a panic, resulted in the hoarding of metallic silver. In this connection it is interesting to note that the bulk of the gold issued in India since the outbreak of war has found its way to Bombay, and to a less extent to Calcutta for use in the arts. The Controller of Currency believes that this is borne out from the marked increase in the number of private assays of gold conducted at the Bombay and Calcutta Assay offices and from circumstantial evidence that has since become available. The melting of gold as also of silver coin was declared on the 29th June, 1917 to be an offence under the Defence of India Rules. There has been a series of circumstances in the last four years that is not likely to occur, except on the rarest of occasions, such as a world war, viz. the persistent demand for munitions of war at extraordinarily high prices, combined with a more or less complete absence

[1] There was no free market for gold, and since June 1917 gold imported into India is acquired by Government Gold (Import) Ordinance, No. III., dated June 29, 1917. This has been superseded by the Gold (Import) Act XXII. of 1917.

[2] Total imports; *net* imports are given in Chapter III.

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of imports of vital necessity to India, such as piece goods, sugar, salt, kerosene, and gold. It is to the combination of these economic causes that the huge absorption in the last three years of war must be mainly ascribed, although the uncertainty as to the future and the unusual restrictions placed on trade may have produced uneasiness in men's minds.

When these temporary and abnormal circumstances disappear, and imports, including imports of gold bullion for use in the arts, are available, a return of specie and notes is certainly to be anticipated. Recently (July 1919) rupees have been returning from hoards in a most satisfactory way, and in parts of Bengal the Bank of Bengal reports that notes are being asked for by producers, rupees being given in exchange. Government's silver balances in India in the Paper Currency Reserve in July 1919 were R. 46 crores as against R. 18 crores in July 1918, R. 26 crores in July 1917, and R. 28 crores in July 1916. It is more than a pious hope that with the spread of education, and with the introduction of a real system of banking, India will learn to abandon on its present scale its secular habit of hoarding. If, in place of importing 200 million ounces of American silver obtained through the Pittman Act of April 1918, we had preferred credits in America at 5 per cent per annum, we should have saved £2,000,000 or R. 300 lakhs per annum in interest alone, more than sufficient to pay the entire cost of education in Bengal for a twelvemonth. The danger of absorption on the scale of the Indian silver crisis of 1918 is a very real one. It may reduce the rupee balances to a low level, and thereby jeopardise the convertibility of the note issue.

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CHAPTER II

THE INDIAN CURRENCY SYSTEM BEFORE THE WAR

AND now to turn to the practical details of the Indian currency system. In order to leave no cause for doubt as to the working of this interesting but delicate piece of mechanism, it will be necessary to make more than a cursory examination. We shall see how the war, which has quickened men's thinking in regard to currency matters, has made us recognise as urgent what had hitherto passed for being academic, speculative, and controversial. It has placed many standing questions of currency policy in a wholly new light.

I

THE CURRENCY IN CIRCULATION AND IN RESERVES

Under the Indian Coinage Act (Act III. of 1906) and the Indian Paper Currency Act (Act II. of 1910) the currency in circulation and in Government and bank reserves consisted before the war entirely of rupees and half-rupees, subsidiary coin of silver, nickel, and bronze, notes, and to some extent of gold. Rupees, half-rupees, sovereigns, half-sovereigns, and

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"universal" notes are unlimited legal tender. The note issue is a Government issue and is in the form of promissory notes of the Government of India payable in rupees to bearer on demand, a reserve, known as the Paper Currency Reserve, being held in India and in London to ensure convertibility. Banks since 1862, in which year the previously existing notes of the Presidency banks were withdrawn, do not possess the right of issuing notes. By Act XVII. of 1835 the rupee of 180 grains troy, $\frac{11}{12}$ths fine, with the half-rupee, became for the first time throughout India "legal tender in satisfaction of all engagements, provided the coin shall not have lost more than two per cent in weight, and provided it shall not have been clipped, or filed, or have been defaced otherwise than by use." Subsidiary coins by the same Act were legal tenders to the extent of one rupee. By Section 11 of Act III. of 1906, "gold coins, whether coined at His Majesty's Royal Mint in England or at any Mint established in pursuance of a Proclamation of His Majesty as a branch of His Majesty's Royal Mint, shall be a legal tender in payment or on account at the rate of fifteen rupees for one sovereign, provided that such coins have not been called in by any Proclamation made in pursuance of the Coinage Act, 1870, or have not lost weight so as to be of less weight than that for the time being prescribed for like coins by or under the said Statute as the least current weight." Sections 12, 13, and 14 of the same Act enacted also that

(1) "The rupee and half-rupee shall be a legal tender in payment or on account, provided that the coin (*a*) has not lost in weight so as to be more than 2 per cent below standard weight, and (*b*) has not been defaced" (Section 12).

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(2) "The quarter-rupee and eighth of a rupee shall be a legal tender in payment or on account for any sum not exceeding one rupee, provided that the coin (*a*) has not lost in weight so as to be more than such percentage below standard weight as may be prescribed as the limit of reasonable wear, and (*b*) has not been defaced" (Section 12).

(3) Nickel coin "shall be a legal tender in payment or on account for any sum not exceeding one rupee" (Section 13 of Act III. of 1906, and Section 7 of Act IV. of 1918, the latter providing for the nickel two-anna piece in addition to the one-anna piece. The two-anna piece was first coined in 1918).

(4) Bronze coins (the pice or quarter-anna, the half-pice or one-eighth of an anna, and a pie, being one-third of a pice or one-twelfth of an anna) "shall be a legal tender in payment or on account for any sum not exceeding one rupee" (Section 14).

Act II. of 1910 provided that a

"universal currency note shall be a legal tender at any place in British India, and any other currency note shall be a legal tender at any place within the circle from which the note was issued, for the amount expressed in the note in payment or on account of (*a*) any revenue or other claim, to the amount of one rupee or upwards, due to the Government of India, and (*b*) any sum of one rupee or upwards, due by the Government of India or by any body corporate or person in British India, provided that no currency note shall be deemed to be a legal tender by the Government of India at any office of issue" (Section 15, Act II. of 1910 as amended by Act XIX. of 1917).

This last sentence provides, of course, for the convertibility of the notes. These notes are issued in denominations of 1, 2/8, 5, 10, 50, 100, 500, 1000, and 10,000 rupees. They are issued without any limit at any paper currency offices against rupees or gold. It is only, however, at the seven currency offices or head offices of issue (into which India is divided for

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the purpose of the note system) that notes are legally encashable. Notes from one to one hundred rupees, as universal notes, are universal legal tender and are encashable as of right at the head offices of issue in all the seven circles. Notes other than universal notes are legally encashable at the currency offices from which they were issued (Section 16, Act II. of 1910). Arrangements were also made for the issue and prompt encashment of notes at a number of the branches of Presidency banks. Facilities for encashment, other than those prescribed by law, were given at most of the Government treasuries, and, in practice, notes were freely encashed there within reasonable limits. As the Civil Account Code puts it somewhat picturesquely and even naïvely :

> Although no person has legal claim to obtain cash for notes presented at a Government treasury, Government desire that this accommodation be given whenever possible, and that all applications for exchange should be granted provided that the coin or notes applied for are available, subject to any general or special limitations which the Accountant-General may find it necessary to impose from time to time. . . . The Treasury Officer should, whenever he is satisfied that no inconvenience will be caused to the treasury by the encashment of any universal notes or home notes [1] likely to be presented, exhibit in some conspicuous place a placard in English and the vernacular notifying that he is prepared to give cash for such notes. If the Treasury Officer can spare cash for only a limited amount of notes he is at liberty to notify that he is prepared to give cash for universal notes only or for notes of the lower denominations only. Care should, however, be taken that no corrupt or undue preference be shown to any individual. . . . Universal notes and home notes to a limited extent may be cashed for the convenience of travellers

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[1] *I.e.* notes of the circle in which the treasury is.

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when the treasury is unable to cash them for the general public.[1]

The instructions, bred perhaps in the tepid atmosphere of a Government office in the plains, ended with a remark—" Visitors to hill sanitaria, however, cannot be regarded as travellers."[2]

We have so far included as currency merely coin and currency notes. We might, however, with perfect reason widen our definition of currency to include anything either of metal or paper commonly accepted in payment for goods and services. This would include cheques, but it would exclude bills of exchange since these bills are a highly specialised means of payment and do not circulate in the hands of the public. There was a large increase in the use of cheques in towns, especially in the five chief ports. Had it not been for the fact that (1) stamps on cheques are necessary in this country as they are not in the United States, and (2) signatures in the vernaculars are not ordinarily permitted by the banking world, the development of the cheque currency might have shown a very much greater increase. Nevertheless a large part of the purchasing power was in the form of bank deposits operated on by cheque, legal tender money being required only for the purpose of actual public circulation in connection with retail transactions and the payment of wages, and for reserves held by the banks against deposits. The following table summarises the increase in this form of currency so far only as returns are available, *i.e.* for the five chief ports—Calcutta, Bombay, Madras, Karachi, and Rangoon. They do not include up-country cheques.

[1] Civil Account Code, §§ 610 and 611 (vol. i.).

[2] In the revised instructions this has been omitted.

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If, for example, a cheque is drawn in Bareilly on a firm in Calcutta, the latter firm would pay the cheque into their account with a bank in Calcutta which collects the amount either through the bank's own branch in Bareilly or through another bank's branch or similar agency. It does not pass through the Clearing House. The table gives the circulation of other forms, such as rupees and notes. The methods by which these results were obtained are described in subsequent chapters.

CURRENCY IN CIRCULATION (10 YEARS).

(In crores of rupees.)

	Pre-War Period.					War Period.				
	1910.	1911.	1912.	1913.	1914.	1915.	1916.	1917.	1918.	1919.
Rupees . . .	1,86	1,84	1,82	1,91	1,87	2,04	2,12	2,27	2,19	2,28
Notes (active circulation on March 31) .	40	40	45	47	50	44	53	67	84	1,34
Total . .	2,26	2,24	2,27	2,38	2,37	2,48	2,65	2,94	3,03	3,62
Cheques cleared .	4,65	5,16	5,89	6,50	5,38	5,63	8,09	9,01	13,96	..
Grand Total .	6,91	7,40	8,16	8,88	7,75	8,11	10,74	11,95	16,99	..

Internally we were always prepared to discharge our indebtedness on a silver basis, viz. rupees. Rupees (and half-rupees, which ranked as we have seen with rupees) were unlimited legal tender and inconvertible. The Government note issue was convertible into rupees. Apart from the investments, gold, and silver bullion in the Paper Currency Reserve, the notes actually represented rupees. Sovereigns were also unlimited legal tender convertible at the rate of R. 15[1] to the £, but rupees were not similarly convertible by law into sovereigns at that rate. There was in

[1] When the Committee on Indian Currency now sitting (July 1919) reports this rate will be changed. The rupee equivalent now fixed by Government for sovereigns imported is R. 12.4.6 per sovereign.

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this respect one-sided convertibility. Before the war sovereigns were sometimes given in exchange for rupees, but this was only as a matter of administrative convenience. Externally we were always ready to meet our obligations in international currency—gold. We were prepared to discharge external indebtedness on a gold basis by the export of gold or by the sale in India of gold bills ("Reverse drafts") on the Secretary of State. Our currency system was a gold standard. India had realised the truth of what that prince of economists, David Ricardo, held at the time of the bullionist controversy one hundred years ago when a long war had ended, and it was necessary, as at present, to right currency matters in the period of reconstruction. We realise that a currency is in its most perfect state when it consists of cheap material (*i.e.* cheap in comparison with gold) for internal purposes, and of an equal value with the gold which it professes to represent. So long as gold is available for the discharge of international indebtedness at an approximately fixed rate in terms of the national currency, it is unimportant whether gold is the *national* currency, and it is unnecessary to redeem this internal currency in gold. Indeed there was a saving of £26,000,000 from the year 1900–1, when the Gold Standard Reserve was established, to the pre-war year from the use of token coins in place of gold. The stability of our system depended on (1) a sufficient reserve of rupees being held in India whereby international currency could be changed into national currency, mainly rupees and notes redeemable in rupees; and (2) a sufficient accumulation of sterling resources abroad by which national currency may be changed into international currency. When these

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conditions were fulfilled the foreign exchanges with our customers possessing a gold standard were maintained at or within the gold specie points. Although under this form of gold standard the national currency is not redeemable in gold except for foreign remittances, the system works almost undistinguishably from a full gold system. Under the full gold standard gold may or may not be a large part of the circulating media of the country. The great bulk of international payments would be discharged from the reserves of banks, and convertibility would depend on the free convertibility into sovereigns at banks and treasuries, and not on Government's readiness to sell for gold bills payable in silver and under certain conditions for silver bills payable in gold. Government themselves manage the currency machine. It is they who control the location, size, and employment of the reserves in the full blaze of public criticism levelled in the Imperial Legislative Council, the Press, and elsewhere. There is no central or State bank to play the *rôle* similar to that of the Bank of England, which is the pivot of the English gold standard. Were there a bank or an amalgamation of banks which among their other duties would do the currency and banking work at present performed by the Government of India in the Finance Department, much of the criticism would probably disappear. In the Indian banking system there is no bank comparable to the Bank of England, the Bank of France, or the Bank of Australia (founded as recently as 1912), which play a pivotal part in the English, French, and Australian financial systems. The Governments of these busy countries are relieved of much trying and difficult work in questions of finance, pure and simple,

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and as the work is not done by a Government Department *coram publico* but by the banks themselves, little is said or heard about their financial operations, which, human nature being what it is, command the utmost confidence.

The Indian system of currency is an improved gold standard, and is frequently known as a gold exchange standard, *i.e.* a standard in which the national or local currency is not redeemable in gold except for international dealings, *i.e.* foreign remittances are provided by Government in gold at a fixed maximum rate in terms of the national or local currency. In such a system gold does not circulate to any appreciable extent. The term "gold exchange standard" is somewhat unfortunate, since it is difficult for the ordinary mortal to fathom its real meaning. It is doubly unfortunate in that it gives rise in some men's minds to a less satisfactory and to a less stable form of currency than the unique and more expensive system that obtains in the United Kingdom. This latter doubt has proved to be illusory, as the system of currency in India to-day is cheap, automatic, and stable. This doubt may be illustrated from Professor Nicholson's interesting book on *War Finance*.[1]

Professor Nicholson writes:

> In a review in the *Quarterly Journal of Economics*, May 1917, Mr. H. Parker Willis, of the Federal Reserve Board, expresses the opinion, with which I entirely concur . . . the gold exchange standard system is available only for dependent countries. In short, it is not a monetary system, but a connecting link between an isolated market and the broader market to which it looks for support.

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[1] Professor J. Shield Nicholson, *War Finance*, p. 61 (P. S. King & Son, London).

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These remarks show a serious misconception of what the Indian gold exchange standard is in its actual everyday working, and the suggestion is not only misleading but even mischievous in regard to a system of currency which has become and must become increasingly popular.

II

The Balances of Government in and outside India

At this stage a slight digression must be made to explain the balances or reserves of Government. This is a question of paramount importance to the working of our currency system, the stability of our sterling exchange, and thus to the progress of Indian commerce and industry. The problem is often a tantalising one because we are apt to forget two hard facts. In the first place these balances or reserves are kept in India in three compartments:

1. In treasuries;
2. In the Paper Currency Reserve; and
3. In the Gold Standard Reserve.

In London these are also maintained in three compartments by the Secretary of State:

1. In the Home Treasury of the Government of India;
2. In the London branch of Paper Currency Reserve; and
3. In the London branch of the Gold Standard Reserve.

The Paper Currency Reserve may temporarily[1]

[1] "During the continuance of the present war and for a period of six months thereafter" (Act XIII. of 1918).

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be kept in part elsewhere than in India and London, as, for example, on March 31, 1919, there was silver bullion belonging to India that had not been shipped from the United States, but against which notes had been issued in India as provided by law. Notes might also have been issued in India against the deposit of gold in the Dominions, or against gold and silver in transit between India, England, and the Dominions. But we must not complicate matters. We may neglect for the moment this fact regarding the Paper Currency Reserve and assume, an assumption which is to all intents and purposes correct, that our balances or reserves are held only in India and in the great money market of the world—London. Secondly, there are transfers between these three compartments not merely in India or in London, but between India and London. At first sight this is apt to bewilder and even terrify the reader, but when analysed it is clear that the difficulties are more apparent than real. They are not Chinese puzzles. To understand the manipulation of these balances is not a case of chasing rainbows over the mountain-tops.

The titles of these balances indicate to some extent the object for which the funds are required. In the last analysis, however, these funds, balances, or reserves constitute one single fund, and have not, in theory or in practice, been restricted to the objects indicated by their names.

(1) *In India*

(1) Firstly, there are the Treasury balances. These balances meet the current expenditure on revenue and capital account of the Imperial and Provincial Govern-

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ments in India. A glance at the coloured map will show the distribution of these treasuries throughout the length and breadth of India. These treasury balances are not only kept in district and sub-district treasuries, but are also kept in the Presidency banks on deposit, and in what are known as Reserve treasuries in the three Presidency cities (Calcutta, Bombay, and Madras) which hold the balances in excess of immediate requirements. The working balances, in addition to meeting current expenditure on revenue and capital account of the Supreme Government (the Government of India) and Provincial Governments, have to meet (1) the expenditure of district and sub-district boards, and municipalities for which Government act as banker; (2) the funds of Government savings banks; and (3) miscellaneous funds and services, such as the general provident fund, funds in court, etc.

(2) Secondly, there is the Paper Currency Reserve. This secures the convertibility of the currency notes, and there is no limitation to the *locale* of this reserve in India. It may be kept either in currency offices and in the Controller of Currency's Office, or in what are called "currency chests" in up-country treasuries and Presidency bank branches. These currency chests contain part of the reserve that is held against currency notes under Act II. of 1910. It is therefore kept quite separate from the treasury balance and treasury accounts. Even in the branches of Presidency banks (which do the Government treasury business) the currency chest is under the charge of Government officers. Primarily these chests afforded facilities to the public for exchanging coin for notes and notes for coin. Their use as a means of avoiding the transfer of coin is now their more important function.

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The ordinary exchanges with the public in regard to notes are made by the treasury, the currency chest being used as a reserve when the proportion of notes or coin in the treasury becomes inconveniently large. If the chest can give no assistance, the facilities afforded to the public are stopped. Coin may be taken out and notes deposited or *vice versa*, or one description of notes or coin may be exchanged for another. Only under orders of the Head Commissioner of Paper Currency (the Controller of Currency), the Commissioner of Paper Currency, or the Deputy Commissioner of Paper Currency can the total amount in the chest be altered. We shall see shortly below how these remittances are made in practice.

(3) Thirdly, there is a fund, the Gold Standard Reserve, for the maintenance of the exchange value of the rupee with the sovereign. Since October 1917 no part of the Gold Standard Reserve has been held in India. A reference to this point will be made in a subsequent chapter.

(2) *Outside India*

The following funds are held outside India :

(1) Treasury Funds which are required to meet the liabilities of the Government of India in London. This includes not only the Home charges on revenue account (£20,000,000), but also the expenditure on capital outlay of most of the Indian railways (£6,000,000).[1] The Secretary of State sells ordinarily each week Council drafts on Calcutta, Bombay, and Madras, and in this way is placed in funds to meet such expenditure.

[1] The average figure—not the figure for any one year.

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(2) A branch of the Paper Currency Reserve. The Indian Paper Currency Act empowers the Secretary of State to hold a portion of the Reserve in the shape of gold in London, and, since the war, in British Treasury Bills, and this enables demands for Council drafts on India to be met at times when it might be inconvenient or impossible to pay these drafts from treasuries. This gives a certain elasticity to the currency system. This system is also useful in connection with the purchase of silver, and, as will be shown later, as a support to exchange.

(3) The Gold Standard Reserve, the object of which has already been described.

The disposition of these balances before and after the war is shown in the summary table on following page, which brings out the striking changes, especially in regard to our gold holdings.

By the manipulation or interchange of the balances or reserves in India economy in the movement of specie is possible not only in India itself, but also between India and London. This economy in the internal movement of specie is an important factor in a country such as India, which not only is as large as Europe without Russia, but also lacks in many parts the blessings of modern civilisation, viz. easy and rapid means of communication. Government play the chief part in the distribution of currency between the centres of trade and the interior through their numerous treasuries, sub-district treasuries, and currency agencies. The treasuries and the Presidency banks (which undertake Government treasury work in those districts in which the bank has branches) receive the revenue (land revenue, excise, and other taxes) and make disbursements. A portion of the treasury surplus

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Disposition of Balances
(In thousands of £.)

	India.			England.			Total.			Percentage increase or decrease in 1919 over 1914.
	March 31			March 31.			March 31.			
	1914.	1918.	1919.	1914.	1918.	1919.	1914.	1918.	1919.	
Treasury	15,608	15,325	17,318	8,133	10,625*	8,715*	23,741	25,950	26,033	+10
Paper Currency Reserve { Silver . .	13,688	7,194	21,568	..	..	..	13,688	7,194	21,568	+58
Gold . . .	14,957	17,900	11,580	6,100	450	82	21,057	18,350	11,662	−45
Securities . .	6,667	6,667	10,720	2,666	34,319	54,999	9,333	40,986	65,719	+604
Gold Standard Reserve { Silver . .	4,000	..	..	..	..	..	4,000	..	..	..
Gold . . .	..	..	..	4,320	..	..	4,320	..	..	..
Securities . .	..	..	..	17,165	28,453	29,730	17,165	28,453	29,730	+73
Cash placed at short notice .	..	..	..	25	6,000	6,016	25	6,000	6,016	+23,964
Total Gold in Paper Currency Reserve and Gold Standard Reserve	14,957	17,900	11,580	10,420	450	82	25,377	18,350	11,662	−54

* In addition to the Special Reserve of £20,000,000 in 1918 and £7,000,000 in 1919 excluded from the table.

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may be transferred to the local currency chests, a corresponding amount being transferred from another currency chest to Treasury, or at headquarters from the Currency Reserve to the Reserve Treasury. Transfers through the Currency Department, or in the parlance of the Finance Department, "through Currency," are the recognised means by which the requirements of trade are met. These are simple and convenient. A large firm, for example, in Calcutta may desire in a district headquarters where there is no branch of a Presidency bank,[1] say Mymensingh, a lakh of rupees to pay for jute. This firm pays the amount into Currency in Calcutta *plus* a small premium. Next day or on the same day the telegraphic transfer purchased by the firm is honoured from the currency chest in Mymensingh, the amount being made over there to the firm's agents. Similarly a firm in Bombay pays 20 lakhs, either direct into the Currency Office or through the Bank of Bombay, an adjustment in the latter case being made in the Currency Office by the transfer of an equivalent amount from Treasury to Currency. A receipt is given, and 20 lakhs of rupees are paid, usually in notes from Currency in Calcutta. There was in these cases no movement of specie by rail from Calcutta to Mymensingh or from Bombay to Calcutta. The telegraph was sufficient.

Except where treasuries are managed by the Presidency banks, Government keep their own cash balances. Notwithstanding the economy in the transfer of specie, lakhs of rupees are sent up-country

[1] Government do not give transfers on towns where there is a branch of a Presidency bank, as the bank itself would give the transfer, and Government do not compete with the bank which does their treasury work.

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from the ports every year to move the wheat and seed crops of Northern India, the jute and rice crops of Bengal, the cotton crop of Bombay and the Central Provinces, the rice crop of Burma, and the cotton and ground-nut crops of Southern India. A portion of the circulating medium is stored away or converted into ornaments by the peasant, while the main portion returns to Government treasuries in payment of land revenue and other taxes, to the tills at railway stations, and to the all too few branch banks. From these the currency gradually flows back to the ports when the Secretary of State's Council drafts are met. By means of drafts on the Government of India, Council Bills and T.T. (Telegraphic Transfers), facilities are given for remitting funds to India in order to assist in liquidating the favourable balance of trade. The drafts are sold weekly on Tuesdays at the Bank of England to the Exchange banks and large firms. These find their way on arrival in Calcutta, Bombay, or Madras to the Presidency banks, at which payment is made from the surplus balances. Outside the Paper Currency Reserve there is no large excess or surplus stock of rupees to provide for immediate demands such as the increased demands for rupees for trade purposes. This rupee balance, therefore, in the Paper Currency Reserve is closely, sometimes anxiously, watched by the currency sentinels in the Finance Department of the Government of India, since this is the barometer which indicates when fresh coinage is required. Although Council drafts are limited only by the resources available in India, there was a standing notification before the war that Council bills would be sold in unlimited amounts at a maximum rate of 1s. $4\frac{1}{8}$d. per rupee. The cost of sending

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gold to India was not, of course, constant, but on the average the cost of freight, insurance, and the loss of interest did not exceed $\frac{1}{8}$d. and at times was less than $\frac{1}{8}$d. per rupee. If the Secretary of State refused to sell freely at 1s. $4\frac{1}{8}$d. per rupee gold flowed into India and was changed into rupees. When London was a free market for gold the upper limit to the fluctuations of exchange was automatic, and independent of the Secretary of State's action. In such a period of falling exchange as in the crisis of 1907–8, when the rupee was tending to fall below 1s. 4d., the cost of remitting sovereigns from India was in the neighbourhood of $\frac{1}{8}$d. per rupee, but the Government of India were not bound to give sovereigns for rupees, so there was no automatic lower limit. As in 1908 gold bills (Reverse drafts) on the Secretary of State were sold at 1s. $3\frac{29}{32}$d. The fact that the Government of India decided on such a policy, viz. to support exchange to the full extent of their resources, inspired confidence and so reduced the demand for drafts at a time of financial stringency, the period when a feeling of panic is always liable to occur. It is interesting to note the two results that followed from the sale of these gold bills on London. In the first place, the amount of the bills sold in India and paid out of the reserves in London was the equivalent of an increase in exports, and this tended to strengthen, if not to maintain exchange. Secondly, as Government withdrew the proceeds of the sales of these bills which they placed in their balances in India, they withdrew rupees from circulation and contracted the currency. This tended to increase exports by lowering prices and to diminish imports.

We have said, perhaps, enough for the present

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regarding the beautiful elasticity of our currency system. We need only add that the stability of exchange, as experience has taught us in 1908 and 1918, depends upon a sufficient reserve of coined rupees in our balances to convert international currency into Indian currency, and also upon a sufficient reserve of sterling resources in gold, of very liquid resources in the form of money at call, and a certain amount of liquid resources in the form of investments.

III

Rupee Coinage before the War

There was no coinage of gold at the Indian Mints before the war, and for more than a quarter of a century (*i.e.* since 1893) the Mints had been closed to the unrestricted coinage of silver. Although there was no restriction upon the import of silver, it could not, as the Mints were closed to the free coinage of silver, be taken to the Mints and coined into rupees. If imported on private account it was sold either to Government for coinage or to bullion dealers for the arts, mainly for conversion into jewellery. Silver for coinage was ordinarily imported on Government account. The issue of rupees from the Mints was as automatic as before the closing of the Mints. Coinage depended entirely on the response of trade demands, *i.e.* rupees were coined in payment of Council drafts, or in order to exchange at the currency offices for gold coin. The Secretary of State sold his drafts on India to meet his own requirements and the requirements of trade, while the Government of India met these drafts from the supply of coined rupees in

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India. Before the war not a single rupee was issued and put into circulation in India except on demand, either for the payment of Council drafts or for issue in exchange for gold, the two main ways in which the circulation of rupees could be increased. In neither of these cases could the issue of rupees be refused. Coinage operations in the period preceding the outbreak of war were so organised that 24 crores of rupees in the Paper Currency and Gold Standard[1] Reserves were held at the beginning of the busy season (on November 1), and coinage was so regulated that in a year of heavy absorption there would be 18 crores left in the Reserve on May 1 (*i.e.* at the end of the busy season) and 24 crores on the same date in a normal year. Standards were formulated so that coinage might be undertaken automatically, or stopped according to a change in conditions during the year. A programme was arranged for the season as a whole, the position was reviewed from month to month, and coinage arranged for in the light of this examination. The Secretary of State (who does the buying of the silver) thus received timely warning. As long ago as 1904 a weekly statement was submitted to the Government of India by their chief currency officer, showing the balances of silver coin in the Reserve, the balances of bullion in the Mints, and on its way to the Mints, with probable dates of arrival, the time which would be taken to coin that bullion working at full strength, and the probable absorption of rupees in the next quarter, based upon the average absorption of that quarter for the previous three years. This was introduced to regulate the additions

[1] There is now no silver holding in the Gold Standard Reserve.

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to currency closely in accordance with the actual requirements of the particular season of the year. Even if the forecast of Government was not absolutely correct and more rupees happened to be coined than were immediately required, all that occurred was that these rupees remained in the reserves or coffers of Government until demanded for actual circulation, *i.e.* in payment of Council drafts or in exchange for gold. We might even go further and say that no interest was lost even in such a hypothetical case as overcoinage because, if the silver had not been purchased and coined, it would have been in the form of ear-marked gold belonging to the Paper Currency Reserve in the Bank of England. This "ear-marked" gold does not appear in the Bank of England's accounts. It earns no interest and is merely in safe deposit. Hence the Government of India, if they happen to be holding a stock of rupees for an emergency, cannot be charged with foregoing a large amount of interest that they might otherwise have earned. To say that Government suddenly lost their head and plunged into the coinage of rupees was the purest rodomontade. The issue of rupees was dependent entirely on the demands of trade and was completely automatic. If the trade overestimated its requirements, the rupees came back to Government and were converted into international currency, if required, *i.e.* into gold or gold bills (Reverse drafts). Those who close their eyes to these facts and prate of a redundancy of rupees skate over the difficulties of the problem with unconvincing lightness and agility. They fail to see that no more rupees have been kept in the Government reserves than were necessary, and coinage in

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anticipation of requirements was not greater than was absolutely required. We feel inclined to treat those financial Hotspurs who leap to hasty conclusions and aver that the coinage of rupees was faulty, and led even to redundancy in the offensive sense of the term, like the mimic and acrobat in the *Republic* of Plato :

> We will fall down and worship him as a sweet and holy and wonderful being ; but we must inform him that in our state such as he are not permitted to exist ; the law will not allow them. And so when we have anointed him with myrrh and set a garland of wool upon his head, we shall send him away to another city.

IV

An Increase and Decrease in the Circulating Medium

When the exchanges were favourable gold and funds in the shape of Council drafts flowed freely into this country, and an increase in the circulation of legal tender money was the natural concomitant of this expansion in trade. In the section on coinage we saw that the circulation was increased by (*a*) the import of gold ; (sovereigns, if imported for currency, were ordinarily presented at currency offices for conversion into rupees, or notes, or both, the rupee balance always being kept at a suitable level by the fresh coinage of rupees on the part of Government to meet the trade demands) ; (*b*) the import of funds (Council drafts). These Council drafts were paid usually from "Treasury" or from "Currency" in India.

When exchange tended to become unfavourable

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owing to a failure of the monsoon or a commercial crisis, exports fell off, and it became profitable to export gold or (more frequently) gold bills on London (Reverse drafts). Internal circulation, therefore, apart from the normal demands for hoarding (including jewellery which was only partially supplied from currency), was by this means diminished, and the proceeds obtained from the sale of Reverse drafts were locked up in Government coffers until values readjusted themselves and a demand for currency again arose.

An increase in circulation sometimes occurred from the return of gold and rupees from hoards into active circulation. If the metallic currency flowed into Government balances or reserves, and was there locked up, the circulation decreased. This was especially the case during a period of scarcity or famine. In the year ending March 31, 1915, owing chiefly to the commercial stagnation after the first alarms of war, nearly seven crores of rupees and three crores of notes returned from absorption, *i.e.* from hoards and circulation. These amounts, however, did not go into active circulation, but into Treasury balances, and the circulation of rupees in 1914, as will be seen from the statistics of rupee circulation, fell by four crores or 2 per cent of the circulation of the previous year,[1] while notes fell by 3 crores or 6 per cent of the net circulation on the last day of March 1915.

Currency in circulation was increased but to a small extent by the net import (imports *minus* exports) of rupees and sovereigns. The net import of sovereign has already been referred to. If the sovereigns went

[1] *Vide* Table No. 16.

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straight into circulation and were neither converted at the currency offices into notes or rupees nor hoarded, the circulation increased. Both in the sea-borne and land frontier trade there was a net export of rupees. In the last five war years, in addition to a rupee coinage of R. 106 crores (£71,000,000), there was a net import of R. 39 crores (£26,000,000) of gold, of which R. 14 crores (£9,000,000) were in sovereigns. In the same period gold was absorbed either for hoards, the melting-pot, or circulation to the extent of R. 56 crores (£38,000,000). In the same period the net exports of rupees in the sea-borne trade were R. 898 lakhs or an annual net export of R. 180 lakhs.

To turn now to the increase and decrease of currency in circulation by means of increasing or decreasing the branches of the reserves either in London or in India. Let us take in the first place investments on behalf of the Paper Currency Reserve which may be made in India or in London. Investments were made by the Secretary of State out of funds at his disposal, ordinarily from Treasury funds. If he increased his investments in the Paper Currency Reserve, a reverse transfer on receipt of advice of such investments was made in this country from Currency (the Paper Currency Reserve) to Treasury (Treasury balances) of an amount equivalent to that invested in London. In other words, currency notes were made over to Treasury in India. This had the effect of increasing the note circulation and therefore the total currency in circulation in India. The effect on the Treasury position was to transfer funds from London to India. If the Secretary of State met his requirements by withdrawing gold from his Gold Standard Reserve or Paper Currency Reserve, the Government

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of India would simultaneously make a transfer from Treasury to the corresponding Reserve (the Gold Standard Reserve or the Paper Currency Reserve). There was a decrease in circulation in India. The net result on the Treasury position was a transfer of funds from India to London. In the case of investments in India the procedure was somewhat as follows. Let us suppose that an increase in the investments was decided on in India, say in Calcutta, as it was in that city the investments were usually made. If the invested portion of the Paper Currency Reserve were increased by R. 50 lakhs, a transfer would be made of R. 50 lakhs from Currency to Treasury, and the equivalent in investments (Government Promissory notes) placed in the Paper Currency Reserve. If the Secretary of State sold part of the invested portion of the Paper Currency Reserve in London, he could ear-mark gold for the Paper Currency Reserve (in London), and in India the note circulation would not be reduced, but the total metallic portion of the Paper Currency Reserve would be strengthened. The Secretary of State could also place the proceeds to Treasury balances or to the Gold Standard Reserve in London, corresponding payments in the opposite direction being made in India. If investments in the Paper Currency Reserve were reduced in India Government would realise the investments and pay the proceeds into the Paper Currency Reserve, retiring, of course, the notes.

Lastly, with reference to the design of our coinage in this period. If a criticism might be made it is that everything is apt to be sacrificed to convenience and there is little artistic beauty in the coins. The nickel pieces are a striking example of this. The

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coins are extremely convenient and difficult to counterfeit. But that is perhaps all. They are rigid in outline and ugly in design, lacking all the beauty of line, the intellectuality, the grandeur, and mastery of technique possessed by Oscar Roty, Chaplain, Dupuis, Dubois, Botée, and others. We are in this country living in an inartistic age, as Sir Rabindranath Tagore would say. We require something of the spirit of Benedetto Pistrucci, who designed St. George and the Dragon on the English sovereign. It was Gibbon who said in his masterpiece that if all the historians were lost, medals and inscriptions would be sufficient to record the travels of Hadrian. Some future historian of India, should the records of this period be few and far between, might possibly be inclined to conclude from our coinage that this was a period of great commercial development of high jute and cotton mill profits, a period, in short, when commerce flouted completely the artistic spirit.

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CHAPTER III

THE INDIAN CURRENCY SYSTEM IN WAR TIME

I

The Two War Periods

We now take up the recital of the main incidents during the remarkable period, 1914 to 1919. We propose to answer three questions: (1) What has been the effect of the war on the Indian Currency system? (2) What are the reasons for the rise in exchange? and (3) What are the probable difficulties to be guarded against in the near future as a result of this rise in exchange and in the gold price of silver?

It is unnecessary, perhaps, to emphasise that our system of currency, like that of other countries, is not on an absolutely permanent basis, and in our opinion never will be on such a basis. We have, therefore, especially after a great war, to be prepared for difficulties which may have to be encountered from time to time. This war period divides itself conveniently into two parts: (1) a period of dislocation extending from the outbreak of war to the early autumn of 1915; and (2) a period of revival and of great vigour in production which began in the autumn

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of 1915. This latter period is the period of the rise in exchange and of the rise in the gold price of silver by as much as 144 per cent.[1] We shall postpone to Chapter VII. the vexed question of inflation.

II

Period I.—1914 to 1915

The internal currency position in the first of these two periods was not free from anxiety owing to a vague and unwarranted sense of insecurity among the uneducated masses and even among some literate classes, notably Marwaris. Some of these Marwaris, preferring the ease of their own home to the apparent insecurity of the market-place, went off for a time with their valuables to Rajputana. "Business as usual" was not their maxim. Steps were taken to prevent dissipation of gold by notifying that gold would be issued to no person or firm to a less extent than £10,000. This, it was thought, would in a rough-and-ready way separate remittances for foreign exchange from local requirements, including hoarding. Various individuals and firms, however, clubbed together to make the minimum demand. It was therefore decided on August 5, 1914, to refuse the issue of gold altogether to private persons. In the first four days of August Government paid out in gold no less than £1,800,000. In addition to this scramble for gold there was a run on the deposits in the Post Office savings banks. This was equivalent to a run on Government treasury balances, since these

[1] The average price of silver per standard ounce in London during September and October 1915 was 23¾d. The quotation of May 10, 1919 was 58d., a rise of 144 per cent.

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deposits are, as in the United Kingdom, unfunded and treated as part of the Government balances. From the second week of August large withdrawals from these Post Office savings banks took place, and during August and September there was a net decrease of six crores or the equivalent of 25 per cent of the deposits at the beginning of August (R. 24½ crores). These balances fell to R. 14,89 lakhs by the end of March 1915.[1] Prompt measures were taken to meet all claims, and confidence was soon restored. As the Finance Member remarked, it was interesting to see how our enemies viewed the position at this time, since a number of German prisoners at Ahmednagar themselves opened accounts with the Government savings banks. In Bombay and to a less extent in Burma and in the Punjab, there was also an abnormal demand for the conversion of currency notes into rupees. Out of R. 4¼ crores of notes cashed in India (including, of course, Burma) during August and September 1914, R. 2¾ crores were cashed in the Bombay Presidency. The encashment in Burma and in the Punjab, unlike that in Bombay, was due as much to the special trade conditions of the year as to lack of confidence. Steps were taken to check any uneasiness by instructing treasuries to meet promptly and as far as possible all demands for encashment, and a large number of notes, especially in Bombay and in the Punjab, were cashed in this way. Notes, it will be remembered, are encashable

[1] The increase in these deposits since this date is interesting:

March 31, 1916	R. 15,32 lakhs.
1917	R. 16,60 ,,
1918	R. 16,59 ,,
1919	R. 18,83 ,,

The level on March 31, 1919 was still 19 per cent below the pre-war level (R. 23,17 lakhs).

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as of right under certain conditions only at the seven currency offices, and not at treasuries. The run was of comparatively short duration, as will be seen by the following statement of the active note circulation (*i.e.* excluding notes held in Reserve and other Government treasuries and in the Head Offices of the Presidency banks) on 31st March:

1914 . . .	R. 49,97 lakhs.	1917 . . .	R. 67,08 lakhs.
1915 . . .	R. 43,96 „	1918 . . .	R. 84,30 „
1916 . . .	R. 53,19 „	1919 . . .	R. 1,33,58 „

The strengthening of the cash resources of the Post Office savings banks and treasuries and also of the Government deposits with branches of the three Presidency banks was an added strain on Government balances. In view of this, such balances could not be economically mobilised at the chief commercial centres.

Next with regard to the external aspect of the currency during this period. Government undertook to support exchange by all the means in their power. This was a policy recommended by the Chamberlain Commission on Indian Finance and Currency, the report of which had only been issued a few months previous to the outbreak of hostilities, and had not included in its purview such a catastrophe as a world at war. Sterling bills or reverse drafts were offered for sale up to a maximum limit of £1,000,000 a week until further notice. This was an innovation on previous policy. In the crisis of 1907 and 1908 the exact amount had not been settled before each successive weekly sale, and the possible apprehension that the drafts might be reduced in the following week with the consequent speculative competition was thus avoided. The amounts sold on

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similar occasions in 1907 and 1908 were only £500,000 and occasionally £1,000,000 a week. From August 1914 to January 1915 it was necessary to have weekly sales. In June 1915 these sales had to be resumed for three months until the demand for Council drafts recommenced. In order to afford immediate remittance the system of selling telegraphic transfers was introduced concurrently with the sale of bills. It was also arranged that bills should be payable in London sixteen days after the departure of the weekly mail. The uncertainty of the delivery of the bills in London was by this means eliminated. In August 1914, it may be noted, the balances in London and in India were high, and well able to stand the coming strain. Treasury balances had swollen and the amount of gold in London and in India totalled £23,500,000, of which nearly £5,000,000 was in the Gold Standard Reserve and the rest mainly in the Paper Currency Reserve. The Secretary of State had also in the Gold Standard Reserve considerable parcels of short-term securities, some of which were about to mature. Following the recommendation of the Chamberlain Commission, the Gold Standard Reserve was strengthened by the exchange of R. 6 crores (or £4,000,000 sterling) for an equivalent sum of gold from the Paper Currency Reserve.

The chief points during the first year of war in the working of the currency system were: (1) the unqualified assurance of Government's determination to support exchange; (2) the stopping of the issue of gold to private persons; (3) the strengthening of the Gold Standard Reserve by replacing the rupees (previously held in the Indian branch of that Reserve) by gold to the extent of £4,000,000, which was obtained

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from the Paper Currency Reserve in exchange for 6 crores in rupees; (4) an equivalent increase in the fiduciary portion of the Paper Currency Reserve by £4,000,000; and (5) the adoption of measures to facilitate and extend the use of currency notes. The inherent strength of the Indian currency machine was brought to the test in this period. There was no sudden tumble in exchange in the manner that had sometimes been forecasted during the alarms of war. All obligations were met without any extraordinary measure of assistance from outside sources. The stability of the rupee was maintained, and at no time was it necessary to have recourse either to the expedient of a moratorium, or to the inconvertibility of the note issue as in several other countries, notably France and Germany.

III

Period II.—1915 to 1919

(1) *The Causes of the Rise in Exchange*

The history of the second period is by no means commonplace or jogtrot. It is extremely interesting and big with events of great importance. In the first place, there was a persistent demand for India's products (at good prices) and also for services. There was also a contraction in imports concurrently with an increase in exports. Over and above all this there occurred a catastrophic change in the movement of gold and silver. We were unable to obtain our usual share of the precious metals, and this led, as we shall see, to a change in the financial relations between India and countries abroad. It resulted in an appreci-

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ating value of the rupee in the international exchanges. Our customers abroad were unable to follow their peace-time methods of paying for Indian exports, viz. by exporting goods or treasure to India in sufficient quantities to liquidate the balance of trade which in normal times is largely in favour of India. Custom, as we have shown with tiresome iteration elsewhere, could not be changed suddenly, and the lack of the precious metals thus led to currency difficulties. From time immemorial India has demanded gold, or, as one writer has put it, she has been "from the birth of international commerce the receptacle or sink for the precious metals of the civilised western world." Herodotus in his own picturesque way describes how Indians of his day used to get gold dust from the soil turned up by ants that were "smaller than dogs but bigger than foxes." The ant-heaps were raided at the hottest time of day when the ants had gone underground, and then the Indians would gallop away on swift camels to avoid the ants preparing to avenge the attack on their heaps. Adam Smith in a well-known passage of the *Wealth of Nations* (1776) speaks of the hoarding habit: "Where men are continually afraid of the violence of their superiors, they frequently bury and conceal a great part of their stock, in order to have it always at hand to carry with them to some place of safety, in case of their being threatened with any of those disasters to which they consider themselves as at all times exposed. This is said to be a common practice in Turkey, in Hindustan, and, I believe, in most other governments of Asia. It seems to have been a common practice among our ancestors during the violence of the feudal government. Treasure-trove was in those times con-

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sidered as no contemptible part of the revenue of the greatest sovereigns in Europe." In other passages he refers to "the precious metals that are a commodity which it always has been, and still continues to be, extremely advantageous to carry from Europe to India," and to the annual exportation of silver to the East Indies, by which "plate is probably somewhat dearer in Europe than it otherwise might have been. . . . The trade to the East Indies, by opening a market to the commodities of Europe, or, what comes nearly to the same thing, to the gold and silver which is purchased with those commodities, must necessarily tend to increase the annual production of European commodities, and consequently the real wealth and revenue of Europe. That it has hitherto increased them so little is probably owing to the restraints which it everywhere labours under." These were the views of the father of Economics 143 years ago, and they are of more than passing interest at the present moment.

In the five pre-war years the total excess of exports over imports of commodities was about £262,000,000 sterling. This was liquidated by a net import of funds (Council drafts, etc.) to the extent of £142,000,000. These Council drafts were paid in Calcutta, Bombay, and Madras from Government's balances in these ports, and constituted a drain on the silver balances. The trade balance was also liquidated to the extent of £120,000,000 in treasure. This import of treasure was on private account, 80 per cent of which was in gold. During the five war years ending March 31, 1919, the favourable balance of trade, amounting to £254,000,000, was partially liquidated by a net import of funds, to the value of £100,000,000, and by the

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surprisingly low, even beggarly, import of treasure of £36,000,000. This small import of treasure in the war period as against £120,000,000 in the pre-war period threw, as we shall see, a heavy burden on the Government rupee balances in India. During the war India has been accumulating deferred payments abroad, and her creditors were unable to send treasure as usual in part payment for exports. In these five years, therefore, there is a favourable balance of no less than £118,000,000. In the five pre-war years this balance was *against* India to the extent of over £1,000,000 sterling.

BALANCE OF TRADE

(In thousands of £.)

	1909–10 to 1913–14 (pre-war average).	1914–15 to 1918–19 (war average).	1917–18.	1918–19.
Net exports of merchandise (excess of exports over imports) . . .	52,179	50,871	61,420	56,553
Net imports of treasure and funds	52,464	27,294	49,830	15,651
(*a*) Council drafts .	28,416	20,098	34,553	15,598
(*b*) Treasure . . .	24,048	7,196	15,277	53
Balance of trade in favour of India . .	..	23,577	11,590	40,902
Balance of trade against India	285	..	..	..

These figures, however, do not show completely the small extent to which treasure on private account has been imported in the period 1917 to 1919 when exchange left its old moorings. The net import of treasure decreased from £1,357,000 in 1916–17 to £53,000 in 1918–19, a decrease of 96 per cent. If we take the balance of trade for the year ending March 31 last we find that, excluding the exceptional

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credit of £11,000,000 given to the nominees of the United States in India in part payment of silver, known in banking parlance as "American Councils," there was a record favourable balance of £41,000,000. In place of a large net import of treasure in normal times, there was a net import of only £53,000. In the five war years ending March 31, 1919, the average net imports of gold were £5,000,000 a year, of which £2,000,000 only were sovereigns, the remainder being in the form of bullion and coined gold other than sovereigns. The yearly average supply of gold for private needs was reduced to a figure below that of any of the preceding twenty-five years, except famine years, and the favourable balance of trade brought about by the impossibility of gold imports was not corrected to an equivalent degree by increased sales of Council drafts. The average net imports during the five pre-war years were £19,000,000 a year, of which £12,000,000 were sovereigns. Again, India's demands in war-time were not unreasonable, since her absorption of gold, silver, and rupees was R. 224 crores in the years 1909–14 against R. 165 crores in the years 1914–19. The views of the senior Indian Chamber of Commerce, the Bengal Chamber, are not without interest in this connection.

"Next to piece-goods," they write, "gold and silver together are the most important item on the list of imports and must be regarded as articles of merchandise. The use of gold and silver is bound up with the religious and marriage customs of the people—customs that cannot be changed by mere decrees. It is therefore necessary in the opinion of the Committee that as soon as possible unrestricted imports of gold and silver should be allowed, and it should be noticed that during the twenty years preceding the war the value of the import of gold considerably exceeded that of silver. It will be clear

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that gold rather than silver dominates the position, and that if India is allowed partly to balance her trade in gold, the local demand for silver must decrease, and consequently the price of silver must fall. The Chamber believe that India would be prepared to pay a premium for the import of gold, and they would emphasise the Indian market value of gold, which was R. 33.8.0 per tola, or R. 89 per ounce, on June 19, 1919. During the war the gold in the United States Federal Reserve system has increased from $592,000,000 to $1,786,000,000, or approximately by £250,000,000; the gold in Spanish banks has increased by £70,000,000; in the Netherlands by £43,000,000; in Switzerland by £10,000,000; and in Norway and Sweden by £14,000,000. The net import of gold into India in the same period was £26,000,000. In other words, these countries with a population of 114,000,000 have increased their gold reserves by £387,000,000, while India with a population nearly three times as large has had to be content with £26,000,000."

The shortage, in short, of gold and silver bullion imports was the chief cause of this enormous demand for rupees.

At this stage the worldly wisdom of reticence on the part of Falstaff on a famous occasion may appear worthy of imitation. "Give you a reason on compulsion! If reasons were plentiful as blackberries, I would give no man a reason upon compulsion." How, it may be asked, granted there was a shortage of imports of merchandise and treasure on private account, did this produce the rise in exchange? We are sometimes apt to forget that the rupee exchange, stripped of all the intricacies that surround it, is a very simple thing. It is nothing more than the gold price in London of the command over rupees in India. It is the amount of gold in London to be paid for one rupee in India at once, *i.e.* by telegraphic transfers,

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or after a lapse of time, *i.e.* by Council bills or similar bills of exchange. With the large demand for India's products at unusually high prices, and the sheer impossibility of obtaining in return in anything like sufficient quantities piece-goods, iron and steel, and other commodities, as well as imports of gold even from London (hitherto a free market for gold), there was a great demand in London for the right to rupees in India. The Secretary of State sold drafts but only to a limited extent, as the rupee balances in India were limited. These sales in London of Council drafts meant in Calcutta, Bombay, and Madras a great demand for rupees. There was thus a great strain on Indian rupee balances. The rupees sent up-country to pay for articles of national importance were, in view of the demand abroad, at high prices, and this fact in itself helps to explain the demand for more rupees. But troubles in currency do not come singly. The producers of these exports could not obtain imports either in the form of piece-goods and similar articles or in the form of gold and uncoined silver. Rupees on this account remained up-country and did not move back in the ordinary way to replenish rupee stocks at the ports. The producers of these commodities had, in a country where banking is not developed, where every man in nine cases out of ten is his own banker, simply to "sit on" the proceeds of their crops, and instead of bringing back from market piece-goods, etc., for themselves and their families, brought home cash. The absorption statistics are of interest in this connection. By absorption we do not mean that the rupees have all been buried. Absorption merely indicates that the rupees have been passed into circulation and have not come back.

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RUPEE (INCLUDING HALF-RUPEE) ABSORPTION
(In lakhs of rupees.)

Pre-war annual average (1909-10 to 1913-14).	1914-15.	1915-16.	1916-17.	1917-18.	1918-19.	Annual average (1914-15 to 1918-19).
8,78	—6,70	10,40	33,81	27,86	45,02	22,08

(—means a return from circulation.)

Here we have an increase of 62 per cent in the absorption of rupees and half-rupees in 1918–19 above that of 1917–18, and 413 per cent above the pre-war normal. Such a large absorption is wasteful. Truly those who bury rupees in the ground and hide them away are, as in the parable of the Talents, unprofitable servants. The absorption was equally phenomenal, especially in 1918–19, for small coin, as will be seen from the following table :

ABSORPTION OF SMALL COIN
(In thousands of rupees.)

	Four-anna pieces.	Two-anna pieces silver nickel.	One-anna pieces nickel.	Bronze coin (single pice).	Total.
Pre-war annual average 1909–10 to 1913–14 . .	15,75	13,59	21,01	10,51	60,87
1914–15 . .	– 10,23	– 4,63	6,87	– 12,57	– 20,56
1915–16 . .	8,33	7,44	18,60	2,06	36,43
1916–17 . .	32,99	23,17	32,50	8,59	97,25
1917–18 . .	38,11	28,53	25,86	6,15	98,65
1918–19 . .	1,16,34	94,75	46,82	19,62	2,77,53
Annual average 1914–15 to 1918–19	37,11	29,85	26,13	4,77	97,86

None of the subsidiary coins have the same significance as the rupee, not even the silver eight-anna piece, which is legal tender. If then nickel four-anna and eight-anna coins were introduced to replace the small silver coins, ample reserves of all nickel coins should be kept ready for use. The lessons of the large absorption of nickel coins in 1918–19 show the absolute necessity of having in our Mints large reserves of such coin well in advance. Canada is the main source of nickel, and supplies cannot be laid down in India at a moment's notice.

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There were also large disbursements in India on behalf of the War Office in London, and these were a very heavy strain on silver balances in India. Government, in order to meet the needs of the British and Allied Governments, became the largest individual exporters of war supplies and services. The disbursements were made in India and corresponding payments were made in London. The crux of the whole situation was how to convert the funds locked up in London into remittances, at a time when gold was unavailable and the world's silver stocks very low and very dear. In 1918–19 the total disbursements in India for which it was necessary to provide, apart from expenditure debited to Indian revenues, amounted to £141,000,000, more than half this sum representing war outlay on behalf of the Home Government. The Secretary of State's liabilities were covered several times over by repayments made to him in London against the large payments in India. These disbursements in themselves (and apart from the Council drafts also sold) placed a very heavy strain on Indian resources. The import of specie in large and sufficient quantities was wholly out of the question. The ear-marking of gold in large amounts in London against the concurrent issue of notes in India from the Paper Currency Reserve, was also not possible, since in war-time this was not in the interests of the Empire. Nevertheless, these methods of increasing funds available in India were used to an extent not fully appreciated. In the last two years no less than 290 million ounces of silver, valued at £53,972,000, were imported, scarce though it was, and turned into rupees. An alternative method to the ear-marking of gold in London against the issue

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of notes in India was the holding of a portion of the Paper Currency Reserve in British Treasury bills, the next best thing to gold. Currency notes were set free to pay for goods and services in India incurred on behalf of the Allies, and repayment of a portion of the amount was made in British Treasury bills. Just as the United States gave loans to her Allies to cover purchases in America, so India lent temporarily funds required for part of the outlay in India. There was, however, an obvious limit to this. Finally, by means of loans raised in this country (War Loan and Indian Treasury bills), Government were able to finance disbursements in India with the proceeds of such loans. Repayment was made in England for such expenditure as had been incurred on behalf of the Allies, excluding of course that portion of the amount so recovered, representing the equivalent of subscriptions to Indian War Loan (which was actually made over as a gift in cash and not lent to the British Government). In 1916–19 the disbursements of £141,000,000 were financed mainly by the receipt of silver, £56,000,000; by the receipts of the Indian War Loan, £37,000,000; and by the issue of currency notes against additional investments, £25,000,000.

All these facts meant in plain language a heavy strain on rupees, the only producers of which were, of course, Government. It was necessary, therefore, for Government to purchase silver to coin rupees in order to keep up their balances to the necessary minimum and to stave off inconvertibility, permanent or temporary, of the note issue. Large purchases of the white metal were necessary and prices accordingly soared. The following summary tables show the position in a nutshell, and explain why on May 13, 1919, exchange had risen 25 per cent above the 16d. level, a level that had been more or less consistently maintained up to August 1917, *i.e.* for practically eighteen years :

(1) Net Imports of Silver into India, World's Production, and the Price of Silver

Silver.	Pre-war decennial average 1904–5 to 1913–14.	Pre-war quinquennial average 1909–10 to 1913–14.	1914–1915.	1915–1916.	1916–1917.	1917–1918.	1918–1919.
1. Net import (million standard ounce) .	76	62	56	33	92	75	237
2. World's production (million fine ounce)	200	222	161	180	161	174 ~~164~~	195 ~~180~~
3. Percentage of net imports to world's production . .	35	26	32	17	53	40 ~~43~~	112 ~~122~~
4. Price of silver (pence per ounce in London) . .	27	26	$25\frac{5}{16}$	$23\frac{11}{16}$	$31\frac{5}{16}$	$40\frac{7}{8}$	$47\frac{9}{16}$

Figures against item No. 1 relate to the fiscal year.
Figures against items Nos. 2 and 4 relate to the calendar year.

(2) Net Imports of Silver into India, World's Production, and the Price of Silver (percentages)

	Pre-war quinquennial average.	1914–1915.	1915–1916.	1916–1917.	1917–1918.	1918–1919.
Net imports	100	90	53	148	121	382
World's production . .	100	72	81	72	74	81
Percentage of net imports to world's production .	100	123	65	204	166	470
Price of silver . . .	100	96	92	119	158	182

The net imports were less than the pre-war average during the first two years of war, but during 1916–17

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and 1917–18 a large demand was made on the world's production. In the pre-war quinquennium the annual average net imports of silver into India were 26 per cent of the world's production; in the year ending March 31, 1916, 17 per cent; in 1917, 53 per cent; in 1918, 43 per cent; and in 1919, the year just ended, the equivalent of 122 per cent of the world's production. This demand unfortunately occurred at a time when the world's production was below the pre-war normal.

The absorption of rupees in India during 1918 was so great that a silver crisis occurred in India. On March 31 of that year the silver balance of the Paper Currency Reserve fell to R. 10½ crores, and a still more serious absorption seemed imminent. In the first fortnight of April there was a further absorption of no less than R. 4¼ crores. The convertibility of the note issue seemed to hang in the balance. Inconvertibility at the time would have meant a set-back to India's war efforts. The result of suspension of rupee payments suddenly in a population of which 94 per cent is illiterate can well be imagined. The United States were approached. Negotiations had actually been undertaken as early as October 1917. In February 1918 Lord Reading, the British Ambassador at Washington, ably assisted by Sir James Brunyate, formerly Financial Secretary to the Government of India, made an appeal to the Government of the United States in Washington. The United States as a result of the negotiations descended on India, not like Jupiter of old in a shower of gold, but literally in a shower of silver. At first, it is understood, the British representatives were unwilling to pay more than 85 cents per ounce, a price at which the major

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portion of the annual production of the country could have perhaps been purchased. This, however, was insufficient to meet the needs of the coming year, and the dollars coined under the Sherman Act were the only spot silver available. Legislation was necessary, and the passing of an Act of Congress at first seemed doubtful, as many senators representing the silver-producing states insisted that the old ratio value of \$1.29 per ounce should be re-established. The agreement to fix the price at a dollar per fine ounce, excluding 1½ cents for mint charges,[1] or \$1.01½, was reached to a large extent through the untiring efforts of the representatives of both Governments, including Governor Boyle and Senator Pittman of Nevada. On April 23, the Pittman Act, which had been hurried through Congress, became law without opposition. The aim of the Act, as stated in the preamble, is important, as showing the idea that lay behind it:

> To conserve the gold supply of the United States; to permit the settlement in silver of trade balances adverse to the United States; to provide silver for subsidiary coinage and for commercial use; to assist foreign governments at war with the enemies of the United States; and for the above purposes to stabilise the price and encourage the production of silver. (Act No. 139, 65th Congress, 1918.)

It provided that:

> The Secretary of the Treasury is hereby authorised from time to time to melt or break up and to sell as bullion not in excess of three hundred and fifty million standard silver dollars now or hereafter held in the Treasury of the United States.

Of the total amount melted down under the Act,

[1] Thus the price obtained by the United States Government was \$1.01½ per fine ounce.

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270 million fine ounces, the equivalent of $350,000,000, India's share was 200 million fine ounces. Between July 1, 1918, and July 17, 1919, all the silver under the Pittman Act had been received from the United States into the Indian mints at Calcutta and Bombay. The Act also provided that such sales were to be replaced by purchases of silver from the United States mines, such silver being purchased at the fixed price of $1 per ounce of silver one thousand fine, delivered at the option of the Director of the Mint at New York, Philadelphia, Denver, or San Francisco. This was undoubtedly the most important piece of legislation since 1893.

The news in India about the middle of April that the United States were to assist on terms which were generous to India relieved the anxiety in the critical weeks of May and June, and by the beginning of July shipments under this Act began to arrive. With the commencement of the busy season absorption again overtook the coinage, and by the end of November silver balances had fallen to R. 8½ crores. A system of double shifts was introduced into the Mints, and by December 1918 a world's record coinage of R. 834 lakhs was reached. By March 31, 1919, the rupee branch of the Paper Currency Reserve had risen to nearly R. 17 crores. At the present time (July 1919) when the tide has long since turned, the total holding of silver in the Paper Currency Reserve, both coin and bullion, amounts to R. 46 crores, as against R. 18 crores in July 1918.[1]

In August 1917, April 1918, and May 1919, with the rise of silver above the content value of the rupee, exchange was also raised, at first from 16¼d. to 17d.

[1] Cf. also Chapter I. p. 18.

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for telegraphic transfers, then to 18d. and finally to 20d.[1] This 20d. rate enables silver to be purchased without loss at about 53¾d. excluding charges. At 1s. 10d. the price would be about 59¼d., at 1s. 6d., 48½d., and at 1s. 4d., 43⅙d. At 2s. silver could be purchased at about 64½d.[2] This was necessary in order that rupees would not be liable to be smuggled out of India in indefinite quantities. As Sir William Meyer in the Financial Statement for 1918–19 pointed out:

The absorption of rupees during the years when the bullion value of the rupee was less than its face value affords no criterion of the probable demand on Government for rupees when, owing to a rise in the price of silver, it would become profitable to melt or to export them. In order to avoid loss from these causes as far as possible, we have, it is true, taken certain steps in the form of prohibitory legislation; but though prohibitions of the kind may serve their object to some extent as temporary expedients, they cannot be expected to operate as a permanent check to the drain on our rupee currency which would certainly accompany a substantial and continued appreciation in the bullion value of the rupee over its face value. In fact the most important limitation which has previously existed on the possible demand on Government for the supply of rupees, viz., that it is unprofitable to export or melt them, would be entirely removed. The only safeguard that a rise in the value of silver above what I may call the "rupee melting point" will not result in the disappearance of rupees from circulation is such a modification in their external exchange value as to make their export unprofitable. Apart from this safeguard an indefinite and unlimited liability would be entailed and it would be indefensible for the Government of India to accept this liability as a loss either to the Gold Standard Reserve or to Indian revenues generally.

[1] This rate has been raised to 22d. with effect from August 12, 1919.

[2] For table on the silver content of the rupee (excluding charges), No. 13, see p. 459. Cf. also Chapter I. p. 18.

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(2) *The Fixing of Exchange*

We now turn to the third of the questions referred to at the beginning of this chapter—the probable difficulties to be surmounted in fixing exchange in the near future. One of the first problems which the Currency Committee of 1919 has to solve is the rate of exchange to be adhered to in the future. Stability of exchange, as experience has proved, has been an inestimable gain to the trade of the country and to India generally. Another problem will be the method by which this stability should be secured. Should, for example, Government be prepared to face temporary inconvertibility of the note issue and keep out of the silver market until more favourable prices prevail? These are difficult questions to be decided by a body of experts, such as Sir Henry Babington Smith's Currency Committee.

In regard to the stereotyping of the rupee the experience of the Herschell Committee of 1893 is not without value. That Committee fixed 1s. 4d. on tentative and not on arbitrary grounds. It was approximately the average rate of the five years preceding 1893, and at that date a shade above the prevailing rate. It therefore involved only a very small departure from the *status quo*. In the second place this 1s. 4d. rate of exchange was very convenient between the Indian and the British coins. The sovereign became equivalent to Rs. 15, the rate at which the gold mohur exchanged for rupees. The subsidiary coins of the two countries fitted in with each other very neatly—the rupee being divided into 16 annas, and so one anna became equal to one

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penny and 240 annas to £1.[1] This experience is useful in considering whether 1s. 8d. should be the fixed rate for the future. We cannot go back to 1s. 4d. To do so would necessitate putting less silver into the rupee. A plan similar to this was, it is true, followed in the Straits, but the silver dollar of the Straits is in no wise to be compared with the rupee in India. It does not circulate in the Straits to anything like the same extent as does the rupee throughout India. The rupee, which was a legacy from Mogul times, having been introduced nearly 380 years ago, is known and used everywhere, not merely as a standard of value, but (and this is important) as a store of value. The Indian looks on the Government rupee as of definite size and one tola in weight.[2] He rightly regards it as containing always a definite amount of silver. It is in other words fixed. It is pre-eminently the sirkar's (Government's) coin. The rupee circulates even beyond the frontiers of India, in Mesopotamia, in East Africa, in parts of Siam, and elsewhere. There would also be trade and even political difficulties if the two rupees were in circulation. The first result of any alteration in the fineness of the rupee would necessarily be that the old rupees would go out of circulation and would in fact tend to disappear altogether as rupees, since it would be quite impracticable to recall them from circulation when a debased rupee was instituted. In other words, under Gresham's law, the proposed new rupee would drive out the old rupee, and this would bring about a crop of difficulties. Moreover, the change would necessitate the re-coinage of the old

[1] Cf. Chapter V. p. 143.

[2] Three-eighths of an ounce Troy. Eleven-twelfths fine.

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rupees in circulation. Lastly, when the reduction in the silver content has taken place, one is never certain when another change may not be necessary. All things considered, this is altogether outside the sphere of practical statesmanship.

In arriving at a decision as to whether 1s. 8d., 1s. 10d., 2s. or any other rate should be fixed, the main factors to be kept in mind are (1) that the change should cause the least sudden dislocation of trade and disturbance between debtor and creditor, and (2) that the rate so fixed will give stability of exchange in future. The raising of exchange has, of course, the same effect as an increase in Indian prices to the buyer of Indian exports and a fall of foreign prices for the Indian importer. This raising of exchange would tend, *ceteris paribus*, to reduce at first exports and to increase imports and to arrest the ascending scale of prices to the advantage of the non-cultivating classes in India and to the disadvantage of the cultivating classes and middlemen. To arrive at a rate requires the most careful examination of data. The raising of the rate to 2s. would mean a large jump, and the equivalent price of silver per oz. in London would be about 64½d. Its supporters, however, allege three advantages: (1) that exchange would be fixed permanently at a figure beyond the reach of interference by any rise in the price of silver; (2) that this high rate would tend to prevent any further considerable rise in prices in the near future; and (3) that there will be a large saving in remitting "Home charges," a saving which can be devoted to other urgent heads of expenditure. On the question of raising the exchange rate to a point independent of silver the Bengal Chamber's views are apposite.

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"If," they say, "we assume that 2s. would be a rate which would make the rupee independent of the price of silver, the sterling price of Indian produce would, in order to yield the same rupee price as in pre-war days, have to rise 50 per cent, assuming the cost of production to remain constant. At the present moment the prices of practically all commodities are more than 50 per cent over their pre-war prices, and therefore the rise in exchange to 2s., as far as produce is concerned, might not have any serious effect. But present conditions are abnormal, and it is therefore necessary to consider which of India's exports are liable to competition with gold and silver standard countries, and would be severely handicapped by an exchange based considerably above the present value of silver. Food grains come first among India's exports, and although theoretically India should suffer as regards food grains through a rise in exchange, it appears probable that the price of food will remain so high for such a long period that the effect of the rise might not be severely felt. Jute is a monopoly of India, and it is probable that, unless substitutes are discovered, the increased cost would have to be paid by the purchaser. On the other hand, India is only one of many producers of cotton, and while at present prices she could easily compete even at 2s. exchange, she would be very seriously affected if cotton prices fell to anything like their pre-war level. Tea is in competition with China, Java, and Japan; it has been shown that India can compete with China, a silver country, even when the exchange value of a rupee is far above its intrinsic value, but any rise in exchange must seriously prejudice India in competition with Japan and Java, the latter of which in particular has of late years become, and probably will continue to be, a serious competitor with India. As regards hides and skins India competes in buffalo hides with China, Java, and the Straits; and in cow-hides with Africa; but in goat skins her position is probably unassailable. But the effect of a high exchange must also be considered as regards imports and India's industries. Every effort has lately been made to stimulate India's industrial production; high exchange must, other

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things being equal, mean lower priced imports, and lower priced imports may well seriously damage, if not cripple, those industries which have been started during the war and have not yet had time to get firmly established. The effect on one of India's greatest industries, cotton manufactures, especially as regards Japan, may be serious. Provided that the cost of production in Japan does not rapidly increase, a premium will without doubt be given to imports of Japanese goods made of Indian cotton to the extent of the rise in exchange on the cost of production, which in India is not likely to grow less. Generally therefore it is the opinion of the Chamber that the fixing of exchange at a point independent of the price of silver is liable seriously to affect many of India's exports and industries, if the rate be fixed unduly high, although owing to abnormal world prices this effect might not be evident for some time."

The Chamber, however, is in reality looking from the point of view of producers, and is at the same time referring to "short period" effects of the raising of exchange. In the long period, *i.e.* when things have settled down, and prices have adjusted themselves, a 2s. rate will neither check exports nor encourage imports.[1] On the other hand it is sometimes urged—

. . . that either the exchange value of the rupee must be considerably raised or the mercantile community must be prepared to do without large drawings of Council Bills at times when the price of silver is high. Nor can we really believe that a rise of the exchange would be anything but beneficial to India, although it would, perhaps, involve temporary hardships in certain cases. We believe that its effects on the level of prices would be most beneficial. Every one knows how severely the rise of prices has been felt, and that the only class that has materially benefited has been the middleman. A rise in the exchange would go some way to check the rise in prices. It would tend to reduce the prices not only of articles imported

[1] Cf. Chapter V. p. 149 on the stimulus of a falling exchange.

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from other countries but also of those exported to other countries; and this would lead to a sympathetic fall in the case of those articles which are neither exported nor imported. When we reflect on the level of prices in Europe and the cost of labour there, we are disposed to believe that the fears of competition with Indian industries are largely without reason; and that, if India is to retain the advantage of cheap and contented labour, lower prices in India are essential. In short, from the point of view of foreign competition it is likely that the gradual raising of the exchange to 2s. would be neutral. On the other hand, by its operation on the level of prices we believe it would tend to the peace and prosperity of the country at large.[1]

If silver receded from, or even remained at, its present level, the difference between the silver content and circulating value would be great at the 2s. rate. The resulting disadvantage, *e.g.* the chance of counterfeiting, need only be mentioned. Against this, however, has to be set the advantage of placing the rupee beyond the reach of interference by any increase in the gold price of silver since it is highly improbable that silver could soar to over 60d. While avoiding a large jump in exchange like that which 2s. would involve, one must avoid too small a jump, since this may result in less permanence. There are other factors of great importance, viz. (1) India's future demand for silver. A high American authority has estimated the demand for the present year as follows: India 150,000,000 ounces; the arts 75,000,000 ounces; subsidiary coinage 60,000,000 ounces; Africa 25,000,000 ounces; China, etc., 40,000,000 ounces. Total, 350,000,000 ounces. Production, 180,000,000 ounces. Shortage, 170,000,000 ounces. It is assumed in this estimate that gold will not be exported to India

[1] Vide *Madras Mail* of the 16th July 1919.

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and that silver will have to assist in filling the void. India has so far taken no less than 28 per cent of the total world's production of silver. In the last three years the two Indian Mints at Calcutta and Bombay have issued a net coinage of 103 crores of rupees, the equivalent of the coinage of the eleven preceding years. These were, of course, exceptional coinages. India's demand for silver will, of course, be affected by the policy to be pursued with regard to gold. The gold production of the world is now largely in the hands of the British Empire and the United States. Both these countries are creditor countries and, therefore, are able to restrict the exportation of gold. If the free distribution of gold is not permitted, silver will be substituted if it can be produced. A second factor is that the probable demand for silver in other countries will have to be considered. Thirdly, increased production is an important factor, and there seems, on the authority of American producers, to be abundant room for an increase in production. Lastly, there is the operation of the Act of Congress of 23rd April, 1918. The Director of the Mint is compelled under the Pittman Act to replace the silver dollars with an equivalent amount of American silver to that contained in the dollars that have been sold under the Act. The Director of the Mint is also required to purchase at $1 per ounce all the silver offered, and since it is only the surplus not required for coinage or commercial purposes that will be offered, it is unlikely that the Director will be able to complete the purchases required by the Act for some years. Senator Pittman is reported to have said regarding the price of silver: "I do not believe that it will advance much above $1.25 for immediately the

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established parity of the silver dollars is threatened, as it would be, if the price tended to go beyond \$1.29, the Government would again interfere and renew the embargo on the export of silver. We may, therefore, expect the price of silver to range somewhat between the extreme limits of \$1 and \$1.29 for perhaps a period of twenty years." This, however, is a prophecy and one cannot refute a prophecy. One can only believe or disbelieve it.

(3) (*Temporary*) *Inconvertibility of the Note Issue—the Alternative to Stability*

In view of the important position India holds as a buyer in the silver market, it is sometimes suggested that power should be taken by Government to declare the inconvertibility of the note issue or at least the inconvertibility of certain denominations of the notes. Such inconvertibility would be only temporary. If prices are so high that silver could not be purchased and coined into rupees without raising its sterling value, then it is said to be preferable to face inconvertibility and not to purchase silver for coinage. Such a declaration, or the mere possession of the power of declaring inconvertibility, would keep, it is alleged, silver prices from soaring to levels which might make stability of exchange out of the question. This proposal merits careful consideration.

It is usually held that an inconvertible note issue, because of its tendency to depreciate, is an imperfect and dangerous form of circulating medium. Depreciation, however, is not a necessary consequence of inconvertibility. "The whole charge for paper money," said Ricardo, "may be considered as

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seigniorage. Though it has no intrinsic value, yet by limiting its quantity its value in exchange is as great as an equal denomination of coin, or of bullion in that coin. It is not necessary that paper money should be payable in specie to secure its value ; it is only necessary that its quantity should be regulated according to the value of the metal which is declared to be the standard." It is, however, possible to count on the fingers of one hand the cases of an inconvertible issue that did not result in depreciation. The classic instance is France in the War of 1870–71, when the notes of the Bank of France were to all intents and purposes inconvertible paper currency. A slight discount existed for a time only owing to the caution of the Bank of France. No serious consequences followed from this issue. The Government of India could create a demand even for inconvertible paper, and could concentrate the demand for this form of paper so as to compel people to employ it as the only alternative of going without a medium of exchange. The issue, if on a most limited scale and under the strictest of regulations, could be maintained. It should in this case form only a small proportion of the total circulation, leaving a large vacuum for rupees. An inconvertible note issue is a special case of monopoly value. On account of the fact that the notes are legal tender and that banks and merchants require legal tender for everyday purposes for loans and till money a demand will be created. "Business conditions," one writer puts it, "remaining unchanged, the limit of possible issue without depreciation is the number of units in circulation before the paper money was issued, the saturation point of full weight and full value coins. Because Governments generally

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have not stopped at that point, paper money has depreciated."

Inconvertible notes usually by the operation of Gresham's Law displace metallic money, such as rupees, which would tend to be driven into hoards, or at any rate out of circulation. The notes would ordinarily be thrown into circulation, people being unwilling to keep them for any length of time through fear of their possible depreciation. Monetary history shows that both in France and in the United States coins disappeared from circulation, especially when the depreciation or discount on the notes was great. In India the rupee and other forms of metallic currency are deeply rooted, and there is the danger of inconvertible notes becoming either discredited or relatively over-issued. By "over-issued" is meant the issue beyond the point where prices remain the same as under a specie regime. There is also the difficulty of the reverse process of over-issue, sometimes far from easy, however partial may be the inconvertibility, viz. the return to specie payments, whether by a redemption of the paper at its face value or at its market value. The greatest defect of making notes temporarily inconvertible is certainly their effect upon prices. Suppose a large amount of Council drafts were sold in London and paid in India not in notes and rupees but in inconvertible notes. The Secretary of State would no longer be compelled to regulate such sales in the light of rupee balances in India and future purchases of silver. As a matter of administrative practice the sales would certainly be limited. The Government of India would, in turn, also no longer have to watch sedulously their rupee balances. The results of an increase of inconvertible

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paper on prices, unless most carefully managed, are not very difficult to imagine: The mercantile community and others exhilarated by rising prices demand more and more notes to meet the higher and higher price level. All the consequences of such a rise begin to appear, and are too well known to be set out in detail. Creditors lose; debtors gain; trade is rendered uncertain and speculative. Not infrequently men's minds become unsettled, and the most elementary lessons on the nature and effects of money have to be retaught often in the teeth of the most violent opposition. It becomes extremely difficult to maintain the level of the paper at its declared value in coin, and the only means of doing so is in direct redemption in specie.

The main argument in favour of facing temporary inconvertibility is that it would be an alternative to stability of exchange. Another argument is that paper is a cheap medium and there is thus a saving of many crores which would otherwise be spent in buying silver at high prices. Assuming that the notes will not be rejected, there is nothing to interfere with their fitting in to the gold exchange standard. Notes will be paid out in India to meet Council drafts, and notes will be received by Government in India for gold bills on London. Before the printing press is made to produce an inconvertible paper currency it has to be decided whether on balance the purchase of silver is really or supposedly impossible and whether the possible rise in exchange is the less of two evils. There are very real arguments against the introduction of an inconvertible note issue, even if it is only temporary and only for certain denominations of notes, in a country where ninety-four per cent

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of the population is still illiterate, where the people have not become habituated to the use of paper to a large extent, and where the rupee has for hundreds of years been not only the chief circulative medium but a, one may even say "the," store of value. In the history of the Government Paper Currency in India there has on no occasion been an inconvertible note issue. Custom and habit count for more in India than in a western country, and with the population constituted as it is any signs of inconvertibility may discredit the note issue. Notes will thus fall to a discount, and the absence of metallic currency affected by Gresham's Law may cause not only inconvenience but loss to the poorer classes. The element of possible discredit must be carefully considered, but never to the exclusion of the quantity of such notes which is the chief, if not the only, safeguard against depreciation. There is, as the crisis of 1918 proved, always an army of rogues who will take advantage of the ignorance of their fellows and levy toll from those who desire metallic currency for notes. There is also the danger of irredeemable paper affecting Government's financial prestige not merely in India but in the international money market, London. Financial prestige is a very delicate piece of furniture, and we cannot attack the cobwebs on it with a Turk's-head mop.

There are not a few who hold that fixity of exchange may be purchased at too high a price and should only be entered upon in some great exigency of national life. Among supporters of this view is General Francis Walker, who firmly believed that the issue of inconvertible paper was never a sound measure of finance, no matter how hedged in the proposals are,

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no matter what the stress of the national exigency may be.

"It is to my mind," he writes in a well-known chapter on inconvertible paper in his *Political Economy*, "the highest proof ever afforded of the supreme intellectual greatness of Napoleon, that during twenty years of continuous war, often single-handed against half the powers of Europe, he never was once driven to this desperate and delusive resort. I hold any man to be something less than a statesman, in the full sense of that word, who, under any stress of fiscal exigency, supports or submits to a measure for the issue of paper money not convertible at the instant, on demand, without conditions, into coined money of its full denominative value. The political arguments by which such measures are always supported, on the outbreak of war, seem to me the veriest trash, due half to ignorance and half to cowardice."

To sum up. Inconvertibility of a more or less permanent nature is altogether outside practical politics in India. It would lead not only to great currency difficulties but, as the Bengal Chamber of Commerce points out, to "grievous political unrest and disturbance as to be also beyond the limits of consideration." As regards a temporary flirtation with inconvertibility (*quod avertat Deus*), the view of the Chamber is that the dangers to such a procedure are great, but they would be prepared to face this possibility of a resort temporarily to inconvertibility rather than to see exchange fixed at so high a figure as seriously to damage the export and industry of India. To lessen the disastrous effects of temporary inconvertibility they suggest (1) a great increase in the metallic portion of the Paper Currency Reserve. (They do not say how the silver is to be got to do this.) "Government could then announce that while, owing to the high price of silver, it was temporarily impossible

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for them to encash all notes submitted, they still had very large silver reserves and would continue to pay the salaries of their small salaried staff in rupees, would provide silver for payment of labour, would receive payment in notes for land revenue and all taxes, and as soon as possible would resume silver payment in full." We doubt the feasibility of this, and the risks are greater than at first meet the eye; (2) an ample supply of R. 1 notes; and (3) large stocks of nickel coins ready for issue. "If power so to refuse were given to the Secretary of State (of declaring inconvertibility) to be used only when the price of silver in the rupee rose and remained above the exchange value, he would be enabled to stand out of the silver market. The result would be a duel between the silver producers and merchants on the one side and India on the other; and in view of the enormous share of the world's silver supply which India consumes, the issue would not, in the opinion of the Chamber, be long in doubt." Under certain conditions Government could maintain temporarily, without any great dramatic effect, an inconvertible paper currency. This issue should form only a small proportion of the total circulation. History, however, shows that the first issue of a temporary inconvertible paper currency has been made always reluctantly and under solemn assurances that it would not be increased. A new emergency arises, and the previous pledges become, as Shakespeare would say, "false as dicers' oaths." The dangers in an illiterate country like India are the risk of an inconvertible note issue being discredited in the mofussil,[1] the temptation to issue notes beyond saturation point, perhaps even

[1] Up-country, away from large towns.

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without adequate provision for an early redemption, and the consequent risk of a depreciated and depreciatory paper currency.

(4) *Economy in the Use of Gold*

It is of interest to see on the one hand the steps taken to economise gold, and on the other its use in 1917 and 1918 to assist the overstrained rupee balances. In fact, gold was at such a premium that it was driven out of circulation under Gresham's Law as soon as it made its appearance. It was hardly currency at all but an emergency ration. Since June 1917 private imports of gold were acquired under the Gold (Import) Ordinance, No. III, dated 29th June 1917, which was superseded by the Gold (Import) Act XXII of 1917. The gold so acquired passed into the Paper Currency Reserve, an equivalent amount of notes being issued to the importers from whom it was obtained. By this means gold holdings were greatly increased. On 31st March 1919 the gold holdings had risen to £11,580,000 in the Indian branch of the Paper Currency Reserve as compared with £82,000 in the London branch. An analogous transaction which also strengthened India's gold holdings was the arrangement arrived at in 1917–18 between the Home Government, Japan, and the Government of India, under which the Government of India were to receive part of the Bank of England's gold held in Bombay. This gold was gold from the Indian mines and from South Africa, which, to avoid the risk of submarines, had been assayed and warehoused in Bombay on the Bank's behalf. The amount received was placed in the Paper Currency Reserve,

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and an equivalent amount of notes issued to the nominees of the Japanese Government. On the other hand, Government were on certain occasions (*e.g.* in 1918 and 1919) forced to issue gold coin in the hope of relieving the strain on their silver balances. In 1918 what may be called the relief issue of sovereigns amounted to about £5,000,000, the chief portion of which was used in Northern India for the purchase of wheat on behalf of the Royal Wheat Commission. Another means of relieving the strain on silver was the sale of a portion of the raw gold held in Bombay on behalf of the Bank of England, the gold bullion taken over in India by Government being paid for by sovereigns from the Reserve in London. Between 18th January and 26th April 1918 over £4,000,000 of bullion was sold in this way. A third means of relieving the strain on the silver balances was by the coinage of gold. In view of the acquisitions under the Gold Import Act, the question of a gold mint for India was raised (not for the first or second time). A considerable portion of the gold acquired was not in the form of sovereigns but in foreign gold coin and gold bars, and therefore not available for currency. Before the establishment of a branch of the Royal Mint, gold mohurs (fifteen-rupee pieces) were coined in 1918 as a war measure owing to the delay in the shipment to India of the dies for the sovereign coinage, and to meet an emergency caused by the drain on the silver balances. On 16th August 1918 a branch of the Royal Mint commenced the coinage of sovereigns. It was established to assist in meeting the demand for currency. These questions are dealt with at greater length in the chapter on a gold currency and a gold mint. It is intended also to coin

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unrefined as well as refined gold. Yet another means of relieving the strain on rupees by gold was the coinage of gold in Australia on behalf of the Government of India. By Section 6 of Act XIX. of 1917 (the Indian Paper Currency Amendment Act), which is to continue until six months after the war, provision was made that part of the Currency Reserve gold may be held in any part of His Majesty's Dominions or in transit therefrom, and notes issued against such gold in India.

(5) *The Growth of the Paper Currency*

Next as to Paper Currency. As far as possible the requirements of currency in circulation and in bank reserves were met by notes. The total increase of 58 per cent since in the active note circulation, and the issue of small notes of R. 1 and R. 2/8 to the extent of 12,35 lakhs,[1] are definite indications of the gratifying progress made in this direction :

Circulation of Notes
(In crores of rupees.)

March 31 in each year.	Gross circulation.	Notes held in Reserve Treasuries.	Net circulation.	Notes held in Government Treasuries other than Reserve Treasuries.	Notes held in Presidency Bank Head Offices.	Active circulation.
1912 .	61	5	56	3	8	45
1913 .	69	13	56	3	6	47
1914 .	66	7	59	3	6	50
1915 .	62	6	56	3	9	44
1916 .	68	4	64	4	7	53
1917 .	86	4	82	3	12	67
1918 .	100	2	98	4	10	84
1919 .	153	3	150	4	12	134

[1] At the close of March 1919.

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The gross circulation of one-rupee notes, which were first issued on December 1, 1917, increased from 33 lakhs on March 31, 1918 to 10,51 lakhs on March 31, 1919. The R. 2/8 denomination was put into circulation on January 2, 1918. The value of these notes in circulation, which amounted to R. 18 lakhs at the end of March 1918, reached R. 1,84 lakhs at the close of March 1919. The circulation of small notes would have been more satisfactory, especially in the jute districts of Eastern Bengal, had the notes been printed, if possible, on waterproof paper. In India notes are very liable (especially in Bengal with its vast rivers) to damage by water, and also to destruction by white ants and rats.

The increase in the gross circulation of paper currency in India at the end of December 1918, as compared with the pre-war level, was 109 per cent. Omitting Russia, the home of Bolshevik finance, where the paper currency has increased from £163,000,000 to £17,900,000,000, the growth in the following seven countries—the United Kingdom, India, Canada, United States of America, France, Japan, and Germany—is £3,409,000,000, or 323 per cent.

It is imperative in a country like India, where the cheque is not likely to be a popular form of currency up-country, to encourage the use of notes as a medium of exchange. In 1918 the bulk of the jute crop was financed for the first time by notes in place of rupees. In 1918 the Bank of Bengal remitted to Dacca, Naraingunge, and Chandpur in the busy season, August to October, for the moving of the jute crop, R. 5,67 lakhs in notes and only 52 lakhs in rupees. In the corresponding period of 1913, R. 6,78 lakhs were remitted in rupees and only R. 2 lakhs in notes.

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Similarly the cotton crop was almost entirely financed by notes. A further illustration of the extended use of notes is given in Calcutta, where one of the largest exchange banks in March 1914 received 86·7 per cent of its total receipts in notes; in March 1919 this had risen to 96·27 per cent, leaving only a paltry 3·73 per cent in rupees. In the earlier part of the period efforts were continued to popularise the note issue by increasing its convertibility at treasuries. In 1918 these measures had to be, temporarily it is hoped, suspended. The rapid extension of the paper currency, especially in the crisis of 1918, led (1) to an increased demand for subsidiary coins, as the phenomenal absorption of small coin in 1918–19 on p. 57 shows; and (2) to a graver consequence, the notes changing hands in many places at a discount. This latter question is a defect hardly removable except by the renewal of encashment of the notes at every treasury in India. This is, as the Finance Member said in the Legislative Council in March 1919, "a consummation devoutly to be wished for, but at present somewhat distant. Happily, however, signs are not wanting that the people, as personal experience tells them that notes are accepted by Government at their face value, are acquiring greater confidence in resisting improper attempts to exact commission. It would be idle to pretend that paper can ever be viewed by the ordinary villager with the same assurance as metallic currency; the whole conditions of his life make that impossible; but it is legitimate to hope that, for the daily transactions of the market, our paper currency will steadily grow in popularity. Gratifying confirmation of this hope is found in the unexpected readiness with which our

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new low value notes have been accepted by the public."

In addition to the increase in the circulation of paper currency, we must add another of its characteristics in war time. We refer to the process of increasing the fiduciary portion of the Paper Currency Reserve (sometimes known, especially with regard to the investment of India Treasury bills, as the watering of the currency), which has proceeded apace since 1917. It is a somewhat depressing indication of the great financial needs of a world at war which requires a huge creation of buying power. How far the investments in the Paper Currency Reserve were increased will be seen in the following table (in £ millions sterling):

PAPER CURRENCY RESERVE INVESTMENTS AS ON MARCH 31

	1914.	1915.	1916.	1917.	1918.	1919.
Investments—						
In rupee securities: *						
(1) 3½ per cent loan of 1842–43 .	5	5	5	5	5	5
(2) 3 per cent loan of 1896–97 .	1	1	1	1	1	1
(3) Indian Treasury bills . .	..	..	..	..	..	4
Total (India) . . .	6	6	6	6	6	10
In sterling securities :						
(1) 2½ per cent Consols . .	3	3	3	3	2	1
(2) British Treasury bills . .	..	..	4	23	32	54
Total (London) . . .	3	3	7	26	34	55
Grand total .	9	9	13	32	40	65

* Rupee figures converted at the rate of £1 = R. 15.

The rise noticed as early as 1916 was due to the internal currency position, which has given rise to considerable anxiety owing to the persistent hoarding of rupees, the disappearance of gold from circulation,

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and the continuous heavy military payments, as well as large advances to cultivators in the tracts afflicted with scarcity. Borrowing from the Paper Currency Reserve in order to meet the expenses of the war is never a wholesome exercise. It was a means of producing currency by the printing press, and once begun was very apt to continue. In India it has been pursued on a relatively modest scale, as compared with countries nearer to the scene of action, where the material loss which fell upon the world in these four years has been very great. Of all the forms of increasing our currency investment that of purchasing our own Treasury bills is the least desirable, and now that the tide has turned this method of making additional currency will be discontinued. Some contraction will perhaps be possible. In 1918 India Treasury bills were placed in the Reserve. This was done by the Controller of Currency (who is also Head Commissioner of Paper Currency) causing to be filled in Treasury bills in favour of the Head Commissioner of Paper Currency to the amount of the investment. Notes to that amount were then issued. This resulted in an increase in the circulation of notes and in the invested portion of the Paper Currency Reserve. There was simply an increase in the floating debt of Government, notes being set free to the extent of the paper cost of the Treasury bills. When British Treasury bills were purchased by the Secretary of State and placed in the London branch of the Paper Currency Reserve, a corresponding increase in the circulating medium of notes was, as we have seen, made in India.

(6) *Council Drafts*

In the first period, the period of uncertainty, which ended in the autumn of 1915, reverse drafts were sold in comparatively large quantities. In 1914–15 reverse drafts and transfers were sold to the extent of £8,707,000, bills at 1s. $3\frac{29}{32}$d. per rupee, transfers at 1s. $3\frac{13}{16}$d. and 1s. $3\frac{27}{32}$d. In 1915–16, £4,893,000 deferred transfers were sold at 1s. $3\frac{29}{32}$d. In 1918–19 reverse drafts were sold to the extent of £5,315,000 at 1s. $6\frac{1}{32}$d. for bills and 1s. $5\frac{31}{32}$d. for immediate telegraphic transfers.[1] With the revival of trade and confidence in the latter part of 1915–16 the demand in London for Council drafts recommenced. The sales and average rate of exchange were as follows :

	1915–16.	1916–17.	1917–18.	1918–19.
Sales of Council bills and telegraphic transfers (in crores of rupees)	30	49	51	29
Average rate of exchange (pence per rupee) . .	16·087	16·148	16·532	17·544

For those who wish to see at a glance the fixed rates for these drafts when exchange was raised, a table has been inserted on p. 306.

We sometimes hear that the Indian gold standard has broken down because our foreign exchanges have not kept to their pre-war limits. Such a statement is both misleading and incorrect. The Cunliffe Committee on "Currency and Foreign Exchanges after the War" deals with this point in regard to the English gold standard. "It will be observed that

[1] See Chapter IX. p. 271.

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the fall in a number of the foreign exchanges below the old export specie points which has taken place since the early part of 1915 is not by itself a proof that the gold standard has broken down or ceased to be effective. During the present war the depredations of enemy submarines, high freights, and the refusal of the Government to extend state insurance to gold cargoes have greatly increased the cost of sending gold abroad. The actual export specie point has, therefore, moved a long way from its old position. In view of our enormous demands for imports, coupled with the check on our exports due to the war, it was natural that our exchanges with neutrals should move towards the export specie point. Consequently, the fall in the export specie point could by itself account for a large fall in our exchange rates. Such a fall must have taken place in the circumstances, even though all the conditions of an effective gold standard had been fully maintained." *Mutatis mutandis* the same is true of the Indian standard. During this war period there were (1) large exports of munitions of war, (2) greatly curtailed imports, and (3) cataclysmic changes in the movement and in the cost of remitting treasure. The fulcrum of the whole system, the gold standard reserve, is undoubtedly strong, and the standard is operating to-day in the way that it did before the war. The machinery is the same. Only the exchange value of the rupee has moved away from 1s. 4d. to a higher level, because it was impossible to turn out rupees at a loss, and to place a permanent premium on the melting and export of rupees.

In very few other countries has sterling exchange been regulated, certainly up to the autumn of 1917, with such advantage to trade. If exchange had not

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been controlled, and if instead of being pegged it had been left to find its own level under the normal laws of supply and demand, it would have soared to a much higher level, and, what is particularly undesirable, it would have fluctuated at frequent intervals. So far from breaking down in the strain and stress of war the Indian currency system has shown that it possesses the two attributes of an ideal currency, security and elasticity. Greater security, it is true, is still mostly desirable, as the war has indicated, in regard to the rupee reserves in India and the gold holdings abroad. The elasticity of the system is seen in various ways. It is also seen in the issue of notes. Since the outbreak of war, when the ear-marking of gold in London was no longer possible as in pre-war days, notes have been issued against British Treasury bills and also against gold deposited (usually by Exchange Banks or their agents) in Australia and elsewhere in the Dominions. Increased facilities have been made for the conversion of notes at district treasuries and at certain branches of the Presidency Banks, and not merely, as the law requires, at special currency centres. Elasticity is also evident in the issue of funds, since Government maintain a separate treasury system as in the United States. The transfer of balances from one part of the country to another for Government's own purposes or for banks or firms need not again be described. These transfers are frequently on a large scale, and Government, by their commanding position in this respect and also in the sale of Council drafts drawn by the Secretary of State in Calcutta, Bombay, and Madras, render very great assistance to trade in the making of remittances. Lastly, the elasticity of the currency system was improved during war time

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as a result of the large disbursements that had to be made in the money market. It was necessary to avoid anything in the nature of an excessive stringency, especially in the raising of loans. It was equally necessary to attempt the solution of an old question —the holding of large balances by Government in the busy season at a time when the demand for currency is at its greatest. It was decided, therefore, to grant temporary loans from these balances to the Presidency Banks during the busy season. By granting loans through these central banking institutions these resources were made available at times of stringency in the most effective possible manner. The locking up of funds in the Reserve treasuries was also reduced to a minimum. The decrease in recent years in the holdings in Reserve treasuries is very noticeable. The balances of Government at the Presidency Banks were kept much above, sometimes very much above, previous standards. The policy was also further extended by leaving the proceeds of public loans with the banks until actually required. The chief problem in the future will be to perfect this elasticity and to make the system still more flexible to trade requirements. With a greater development of banking habits this will be brought about. An improved banking system possessing a network of branch banks up and down the country-side—in which a Central or State Bank or a Board like the Federal Reserve Board of the United States would have a directing influence —would no doubt lead to the management of the treasury balances and the paper currency by such a bank with still greater elasticity to the currency system.

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IV

Summary—1914 to 1919

Among the lessons that we have learnt and are learning as a result of the experience gained during the war, the most fruitful on after-war currency policy are (1) the value of liquid gold in reserves; (2) the importance of imports of treasure, especially gold, in the liquidation of the balance of trade in favour of India; and (3) the necessity of large rupee balances ready to meet abnormal strain. The first period repeated the lesson of the exchange crisis of 1907-8, the necessity of adequate and liquid reserves of gold to prevent a weakening of exchange. The second period gave birth to new ideas on the high importance of silver in the Indian currency system, and also to a condition of things that the Chamberlain Commission did not envisage. In paragraph 79 of their Report the Commission said, with reference to the Gold Standard Reserve, that it is "only to provide a reserve sufficient to convert into sterling such amount of rupees as may at any moment seek export; in other words, such amount as the owners require to exchange for sterling in order to settle debts due in sterling." It was not always realised before the war that the excess of exports over imports of commodities was liquidated to the extent of 46 per cent by the import of treasure *on private account* (*i.e.* excluding transactions which do not enter into the balance of trade), and of this 37 per cent was in gold. It was the reduction in this percentage of treasure to 2 per cent in 1916–17, 25 per cent in 1917–18, and 0·1 per cent in 1918–19 that drew public attention to this important

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fact. It inevitably produced a strain on rupee balances, and this forced Government to purchase silver to keep up its balance to a working minimum. The excess of exports over imports of commodities was liquidated to the extent of 50 per cent by the import of treasure (excluding transactions not entering into the balance of trade), both on private and on Government account in the five pre-war years. In 1916–17 this percentage was 25 ; in 1917–18, 50, and in 1918–19, 75.[1] It was Bagehot who said that "one of the greatest pains is the pain of a new idea." India cannot be denied a share of the world's gold without grave consequences to her rupee exchange, and hence to her commerce and industry. The legislation of April 23, 1918, in America, the most important legislation of its kind in any country for over a quarter of a century, was indeed a crowning mercy. It is unlikely that a similar stroke of good fortune will again present itself to enable the Finance Department of the Government of India to shovel out rupees with such persistency and skill as in 1918–19. More education and better education to remove the appalling illiteracy, and therefore distrust, will take time, but it is one of the many of our Indian problems that is so well worth the doing.

Silver, it seems, will always try to habilitate itself in India, especially if gold is hoarded in the reserves of other countries. We can economise by a careful use of convertible notes and by an extended use of nickel, perhaps also of German silver, for subsidiary coinage, such as four- and eight-, perhaps even twelve-, anna pieces. But subsidiary coinage is small

[1] These percentages, which are high compared with those on private account, are due to the large imports of silver by Government.

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in comparison with rupee coinage. The one-anna nickel piece introduced in 1907 and the two-anna nickel piece in 1918 have, as we have seen, proved to be popular.

Signs of improvement have dawned in the financial sky in 1919, but the refurbishing of our currency armoury and the removal of the cobwebs were not to be delayed. That the Indian Currency Committee have set out to do in very difficult circumstances, and it will call for the exercise of the greatest skill and ingenuity.

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CHAPTER IV

INDIAN CURRENCY IN THE NINETEENTH CENTURY

I

The Four Currency Periods

There is an almost Euclidian precision about the main events in Indian currency during the nineteenth century. We have, therefore, no reason, since the main events stand out in great clearness, to be repelled by the details which are to be found, one might even say in bales, in the archives of Government. With a little of the art of selection one can pick out from these papers the facts which will tell most. The century divides itself conveniently into four periods. There is in the first place the period up to the passing of Act XVII. of 1835, the year in which one uniform silver rupee was declared to be the standard coin for the whole of British India. The second period comprises nearly forty years following the passing of the Act of 1835. It extends up to the Resolution by the Government of India, dated May 7, 1874. This was the period in which efforts were made to introduce a gold currency, and proposals for a gold standard were put forward in more than one quarter. The third period extends from 1874 to 1893. It was

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the period of a falling and unstable exchange with all its attendant woes. This was, too, the period of agitation for currency reform. The fourth and last period, from 1893 to 1900, saw the closing of the Mints to the free coinage of silver and the switching on of India to the gold standard, the standard in vogue in all the chief countries of the world except China. In these seven eventful years, eventful from a financial and currency point of view, there were two Committees on Indian Currency—the Herschell Committee which reported in May 1893, and the Fowler Committee which submitted its valuable report in July 1899.

II

The First Period (to 1835)

In the first of these four periods there are very many events of interest to the numismatist, but of much less importance to the student of currency. We must, therefore, be studiously careful not to be beguiled into looking at the trees in place of the wood. Our sources are entirely official despatches, regulations, House of Commons papers, and the work of a very remarkable man, James Prinsep, F.R.S., whose "Useful tables illustrative of the coins, weights, and measures of British India" is almost the *locus classicus* of this period. Prinsep[1] (1799–1840) arrived in Calcutta in 1819 as Assistant Assay Master at the Calcutta Mint. In 1832 he succeeded Dr. Wilson (afterwards Boden professor of Sanskrit in Oxford) as Assay Master and Secretary to the Mint

[1] The famous Prinsep's Ghat (or landing-place), Calcutta, on the left bank of the Hooghly is a memorial to him.

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Committee, Calcutta. He was, his biographer tells us, the author of the reform of a uniform coinage, under which the Company's rupee was substituted in 1835 for the various coinages then existing. This measure was, as we shall see, successful, and by the coinage of fifty million pieces in one year, the old sicca [1] currency of Bengal proper was entirely replaced.

The main feature of this period is that the system of currency was gradually improved and unified for the whole of British India. The currency system was based upon that of the Mogul Empire. By the end of the eighteenth century there were so much inconvenience and loss from the circulation of so many denominations of gold and silver coins of different values in different districts [2] that the Court of Directors desired the adoption of one general system for the whole of the Company's possessions in Asia. This was forcibly brought out in a Despatch from the Court of Directors to the Madras Government dated April 25, 1806. This Despatch resulted in a prolonged discussion with that Government as to the standard coins, and at length in 1818 a proclamation was issued at Madras declaring that the silver rupee was, in future, to constitute the standard coin of the Presidency and was to contain 165 grains of pure silver and 15 grains of alloy. In the Despatch of 1806 the Directors considered that "the money or coin which is to be the principal measure of property ought to be of one metal only," and they

[1] From the Arabic *sikka*, a coining die; 116 current rupees (*chalāni*) were equal to 100 sicca rupees, or $106\frac{2}{3}$ Company's rupees. In the Company's reports to Parliament accounts were usually in "current rupees," which were converted into sterling at the rate of 2s.

[2] Section 14 of Bengal Regulation XXXV. of 1793 gives twenty-seven varieties of rupees "current in the several districts" to which the Regulation was to apply.

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had no doubt that in India such coin must be of silver. The standard weight of the coin, they considered, should be 180 grains, of which 165 grains or $\frac{11}{12}$ths should be fine silver, and 15 grains or $\frac{1}{12}$th alloy of copper.

> Although we are fully satisfied of the propriety of the silver rupee being the principal measure of value and the money of account, yet we are by no means desirous of checking the circulation of gold, but of establishing a gold coin on a principle fitted for general use. This coin, in our opinion, should be called a gold rupee, and be made of the same standard as the silver rupee, viz. 180 troy grains gross weight, and 165 troy grains fine gold, also divided into halves and quarters, that the coins of both gold and silver should be of the same denomination, weight, and fineness.

In the proclamation of 1818 the public accounts of Madras were to be converted from the star pagoda into the Madras rupee, at the exchange of 350 rupees for 100 pagodas. The coinage of the pagoda was discontinued, "but, for the convenience of the public a coinage of gold rupees will be issued, and will be paid and received by all public officers, at such rate as may be determined by the proclamation of Government. The present rate, until altered by proclamation, will be that of one gold rupee for 15 silver rupees." In 1829 the currency of Bombay was equalised with that of Madras, by the adoption of the 180 grain rupee and mohur (gold rupee). Previous to the Madras Government proclamation of January 7, 1818 the standard coin of Madras was the gold star pagoda of 52·56 grains, 19½ carats fine, while in other parts of India the coin in most common use was the rupee. In the words of the Bengal Regulation XXXV. of 1793, silver

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was "the general measure of value throughout the country."

According to Prinsep, the unit of the old Hindu system of coinage was gold, 60 or 120 grains weight showing a connection with the Greek drachma and didrachma of gold; and Mohammedan rule never having gained complete ascendency in Southern India, the Mogul system of coinage of Northern India, with its characteristic coins, the rupee and mohur, was not in common use.

The silver rupee was introduced, according to Abú'l-fazl, by Sher Shah, who usurped the throne of Delhi from Humáyun in the year 1542. Previous to his time, the Arabic dirham (silver drachma), the gold dínár (denarius auri), and the copper falús (follis) formed the currency of the Moghul dominions. . . . We may assume the original weight of the rupee from Abú'l-fazl's statement to have been eleven and a quarter máshas. [1]

Thus the rupee has been in existence for 380 years. The first English rupee was coined nearly 250 years ago in Bombay,[2] but it was not till 1758, when British rule was established, that British rupee coinage was seriously undertaken. In Mogul times the emperors up to the time of Mohammed Shah coined rupees of 175 grains pure. Gold was allowed to be coined only in Agra, Ahmedabad, Kabul, and in Bengal, while in ten other places silver might be coined, including Allahabad, Surat, Delhi, Patna, Lahore, Multan, Tanda, and Kashmir. In twenty-

[1] *Prinsep's Tables*, p. 19 (1858 edition). If the rupiya (or silver piece) was 11¼ mashas, and if the Delhi masha is 15·5 grains, this coin was 178·25 grains of what was considered pure silver. Chalmers (*Colonial Currency*, p. 336) is not quite correct in giving the weight as 176 grains.

[2] The Queen Elizabeth "portcullis pieces of eight" were coined in 1600 for import into and circulation in India. "The rupee of Bombaim" of 1677 weighed 167·8 grains.

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eight minor towns, in addition to the former, copper coinage could be undertaken.

But to return from this digression. In 1833 a Regulation (No. VII. of 1833) in which the hand of Prinsep is clearly evident was published. The preamble shows how uniformity was steadily being attained. It runs thus:

By a Resolution of the Governor-General in Council, dated the 10th of September 1824, the Furruckabad rupee was ordered to be coined of 180 grains, 165 fine and 15 alloy, and was declared the legal currency of the Saugor and Nerbudda territories. It is considered expedient to adopt this weight and standard for the Furruckabad rupee at the Calcutta as well as at the Saugor mint, instead of that described in Section V. Regulation XI. 1819, from which it differs very slightly, and to make the Furruckabad currency correspond in weight and intrinsic value with the new currency of the Madras and Bombay Presidencies. It is likewise convenient to make a trifling alteration in the weight of the Calcutta sicca rupee, as prescribed by Clause 1, Section I. Regulation XIV. 1818. It is further convenient to introduce the weight of the Furruckabad rupee as the unit of a general system of weights for Government transactions throughout India under the native and well-known denomination of the tola.

The tola was made equal to 180 grains troy. The weight and standard of the sicca and Furruckabad rupees were as follows:

	Weight grains.	Fine grains.	Alloy grains.
Calcutta sicca rupee .	192	176	16
Furruckabad rupee .	180	165	15

and their fractions in proportion, being $\frac{11}{12}$ths pure and $\frac{1}{12}$th alloy.

From an examination of the Calcutta Mint Committee's Proceedings, 1833–1835, we find that the first proposal for a uniform coinage of rupees emanated from Prinsep in a letter dated April 12, 1833. The

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Governor-General in Council approved the proposals to make (1) the Furruckabad rupee struck at the Calcutta Mint 180 grains troy instead of 180·234 as provided by Regulation XI. of 1819, and (2) the Calcutta sicca rupee 192 grains instead of 191·916 as provided by Regulation XIV. 1818 (Section I.). Regulation No. VII. was accordingly issued in 1833. Steps continued to be taken to improve and to unify the rupee. In the Mint Proceedings of December 1834 a letter dated December 25 and signed by Sir H. Thoby Prinsep runs thus:

> The Right Hon'ble the Governor-General of India in Council is prepared to take immediate steps . . . to confine the coinage to rupees of 180 grains of the standard current in the Madras, Bombay, and Agra Presidencies and in the new territory of the Bengal Presidency in discontinuance of the issue of Calcutta sicca rupees of the 19th Sun of Shah Alum.[1] It will be necessary for the Mint Committee to make preparation for this important change, and His Lordship in Council will expect to receive any suggestion on the subject that the Committee may think it necessary or proper to offer.

On May 27, 1835, a Resolution of the Finance Department was published to the effect that "It has been determined by the Governor-General in Council to establish one uniform rupee corresponding in value, weight, and standard with the present Furruckabad, Madras, and Bombay rupees, but of new device, and to declare and make the same current in all the presidencies and possessions of the British Nation in India."[2] The following Act (Act XVII.)

[1] These were "19 Sän Sikkah" because struck in the nineteenth year of Shah Alam, the last of the Moguls. San or Sun is a year. Like Samvat it is also applied to the years of an era as above.

[2] Quoted in the June Proceedings (1835) of the Calcutta Mint Committee.

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was passed on August 17, 1835, and came into force with effect from September 1 of that year:

I. That from the first day of September 1835, the under-mentioned silver coins only shall be coined at the mints within the territories of the East India Company—a rupee, to be determined by the Company's rupee—a half-rupee—a quarter-rupee—and a double rupee, and the weight of the said rupee shall be 180 grains troy, and the standard shall be as follows:

$\frac{11}{12}$ or 165 grains of pure silver,
$\frac{1}{12}$ or 15 grains of alloy,

and the other coins shall be of proportionate weight and of the same standard.

IV. That the said rupee shall be received as equivalent to the Bombay, Madras, Furruckabad, and Sonat rupees, and to fifteen-sixteenths of the Calcutta sicca rupee.

V. That the Company's quarter-rupee shall be a legal tender only in payment of the fraction of a rupee.

VII. That the under-mentioned gold coins only shall henceforth be coined at the mints within the territories of the East India Company. [The coins were the gold mohur or R. 15 piece of the weight of 180 grains troy $\frac{11}{12}$ths fine, a five-, ten-, and thirty-rupee piece, and these three coins were to be of the same standard as the gold mohur.]

IX. That no gold coin shall henceforth be a legal tender of payment in any of the territories of the East India Company.

From the passing of this Act to the present time the weight and fineness of the rupee has remained unchanged. This Act also made this rupee the sole standard of value throughout British India. It is from this year, too, that complete returns of the imports, exports, and coinage are available.

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The Second Period (1835–1874)

The second of the four periods covers nearly forty years. By Section IX. of Act XVII. of 1835 no gold was henceforth to be legal tender in the Company's territories in India. From time to time, however, efforts were made to introduce gold into circulation. By a proclamation issued on January 13, 1841, treasury officers were authorised freely to receive gold coins struck in accordance with the Act of 1835 at the rates indicated by the denomination of the pieces until these should have exceeded the limits of lightness prescribed in that proclamation. Gold coins were thus accepted in payment of public dues, but they were not popular. Indeed in 1847 we are told that gold formed "no part of currency." With the influx of gold, consequent on the Californian and Australian gold discoveries, the value of gold relative to silver began to decline. In a Finance Department notification dated December 22, 1852, the proclamation of 1841, so far as it authorised the receipt of gold coins into the public treasuries, was cancelled with effect from January 1, 1853, and gold was no longer received in settlement of Government dues at the treasuries. Gold continued to be received at the Mints for coinage under the Act of 1835, but Mint certificates for gold coins were discharged in gold only, and no certificate for gold was accepted in payments to Government. The main fact that emerges from a study of these official pronouncements following 1852, especially those of the 'sixties, is that gold did not depreciate in the way that was antici-

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pated. Attempts, therefore, were made from 1859 until the end of this period to extend the use of gold coins.

In 1859 a Financial Member of Council was for the first time appointed, an event which is of great importance in the history of this period. For the first time the nettle of currency and finance was grappled. Before this the financial work of Government had been done by the Governor-General and his Council collectively, and prior to Lord Canning's viceroyalty there was little or no distribution of business among the members. The disordered state of the finances after the military and political convulsion of the period rendered it essential that an expert should be appointed upon whom would devolve the charge of the finances, the Governor-General retaining his supreme control, the other Members of Council remaining generally responsible for finance as for all other branches of administration. It was decided to obtain a financier from England. The choice fell on the Right Hon. James Wilson, a distinguished Scotch economist, who had formerly been Under-Secretary of State to the Board of Control for India, then Financial Secretary to the Treasury, and at the time of his appointment Vice-President of the Board of Trade. As Bagehot, then editor of the *Economist* and Wilson's son-in-law (for he married the eldest of Wilson's six daughters), wrote:

There was a general impression that some one with an English training and English habits of business would have a better chance of overcoming the most pressing difficulty of India than any one on the spot. And there was an equally general impression that if any one were to be sent from England to India with such an object, Mr. Wilson was the

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right person. He united high financial reputation, considerable knowledge of India acquired at the Board of Control, tried habits of business, and long experience at the English Treasury, to the sagacious readiness in dealing with new situations which self-made men commonly have, but which is commonly wanting in others. On personal grounds Mr. Wilson was disinclined to accept the office.[1]

An oak, it is said, should not be transplanted at fifty, but this did not apply to Wilson, who, when he arrived in Calcutta at the end of November 1859, was fifty-four. He was gifted with an abundant stock of freshness and variety. According to the late Lord Welby, Wilson was not only greatly interested in currency questions, taking the side opposed to Peel, Overstone, and Sir Charles Wood, but was also perhaps the most vigorous and efficient Financial Secretary which the Treasury ever had, superior even to Huskisson as an administrator. In the short space of eight eventful months in India (for Wilson died in Calcutta from dysentery in August 1860) he made an extended tour from Calcutta to Lahore and back, which much impressed on him the undeveloped resources of the country. In regard to currency he introduced a Government paper currency scheme which, with modifications, became law in the regime of his successor. He also examined the question of a gold currency. In a despatch dated May 26, 1860, Sir Charles Wood approved of the general proposal to introduce a paper currency, and, "without entering into the reasons contained in Mr. Wilson's minute," said that Her Majesty's Government concur that it is not "advisable at present to take measures

1 *Memoir of the Right Hon. James Wilson* (Supplement to the *Economist*, 1860).

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for introducing a gold currency into India, as they believe that the wants of the community will be better met by means of a paper currency." The details of Wilson's scheme for a paper currency must be postponed to a subsequent chapter. For the first time in India the budget introduced in the Legislative Council in February 1860 was framed on the English model. A system for an effective audit was also begun. He brought forward a scheme of new taxation, including an income tax, that was successfully carried into effect. Wilson stimulated the work of the Military Finance Commission over the entire range of army expenditure, secured the appointment of a Commission to review the numerous branches of civil expenditure, and made arrangements for re-organising the police throughout India. He checked extravagance, but saw that a wise economy could be attained only in combination with efficiency. In the words of his immediate successor, Mr. Laing, "a Government to be well served and generally respected must never do a sharp, mean, or illiberal act, for depend upon it the paltry saving of to-day will come back with tenfold expense and a hundred-fold discredit on the morrow." The other Finance Members of this period—Mr. Laing (1861–1862), Sir Charles Trevelyan (1863–1865), Mr. Massey (1865–1868), and Sir Richard Temple (1868–1874)—continued the policy of financial reconstruction which Wilson had begun with such verve, vigour, and life—and, one might even add, enjoyment.

With the exception of Mr. Wilson every Finance Minister during this period supported a gold currency. In 1864 the Chambers of Commerce of Calcutta, Madras, and Bombay, the Bombay Association

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representing the Indian mercantile community, and the Indian merchants and bankers of Calcutta memorialised the Government of India for a gold currency. There was general agreement that a gold currency should be introduced. A perusal of the correspondence will show that the arguments for its introduction were not convincing. Nor was there put forward any very definite method as to how such a currency might be introduced. The Bengal Chamber in its memorial counselled caution as they were "opposed to any sudden change being attempted, fearing that any such attempt would prove unsuccessful, and be likely to cause great derangement in the commerce and finance of India, and probably also in the money markets of Europe, if a large quantity of gold were suddenly required to carry out such a change." Sir Charles Trevelyan,[1] the Finance Member of Council, proposed in an elaborate minute, dated June 20, 1864, that "sovereigns and half-sovereigns, according to the British and Australian standard, $\frac{11}{12}$ths fine and £3 : 17 : 10½ an ounce, coined at any properly authorised Royal Mint in England, Australia, or India, should be declared legal tender in India at the rate of one sovereign for 10 rupees; and that the Indian Mints should be open to the receipt of gold bullion on the above-mentioned terms to be redelivered in coin at a charge merely sufficient to cover the cost of

[1] Sir Charles Trevelyan (1807–1886), Governor of Madras, was recalled to England after a year of office in February 1860, on account of the publication of his views against Wilson's taxation proposals. He succeeded Laing in 1863 as Finance Member, returning to England in 1865. He married in 1834 Lord Macaulay's sister when Macaulay was a member of the Supreme Council and one of his greatest friends. He was Deputy-Secretary in the Political Department of the Government of India in 1831, and for nineteen years (from 1840) Assistant Secretary to the Treasury.

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manufacture, which is much below the present charge of 1 per cent. The Mint charge on silver should be maintained at the existing rate of 2 per cent. The Government currency notes would be payable either in rupees, or in sovereigns at the rate of 10 rupees. No bullion, either in gold or silver, should be received in exchange for notes." After the proposals had been placed before the then Secretary of State (Sir Charles Wood), it was decided not to make sovereigns or half-sovereigns legal tender. It was, however, notified by the Government of India in the Finance Department in November 1864 that "sovereigns and half-sovereigns coined at any authorised Royal Mint in England or Australia of current weight, shall, until further notice, be received in all the Treasuries of British India and its dependencies in payment of sums due to the Government, as the equivalent of 10 and 5 rupees respectively; and that such sovereigns and half-sovereigns shall, whenever available at any Government Treasury, be paid at the same rates to any person willing to receive them in payment of claims against the Government." A notification of the same date authorised the issue of notes in exchange for sovereigns or half-sovereigns at these rates to an extent not exceeding one-fourth of the total amount of issues represented by coin, or by coin and bullion in each circle. In March 1865 the Bank of Bengal addressed the Government of India regarding the practical working of these notifications, pointing out that sovereigns would neither be held in large quantities nor enter into general circulation so long as an uncertain value attaches to them. "With the experience of the past three months before them, the Directors" thought that "the time

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has come when sovereigns and half-sovereigns of full weight may, with safety and advantage, be declared legal tender at the respective rates of 10 and 5 rupees; and that the introduction of the sovereigns into the currency of India will be generally welcomed as a great public boon." The Secretary of State (Sir Charles Wood), in replying in May 1865 to the Government of India, who forwarded the letter, did not believe that the time had arrived for taking any further steps. This year, it will be remembered, marked the signing of the first Latin Union Treaty when France, Belgium, Italy, and Switzerland agreed to a uniform and interchangeable coinage of gold and silver, all the gold coins and the silver 5-franc pieces being made legal tender in the states of the Union. There was, in other words, a considerable movement in currency matters in regard to which India could not be a disinterested spectator, especially in the following period (1874–1893), when the vagaries of silver were very marked.

The Bengal Chamber at the beginning of 1866 again urged the adoption of a gold currency. The Government of India decided to appoint a Commission under the presidency of Lieutenant-General Sir William Mansfield to report upon the operation of the Paper Currency Act, and any arrangements for rendering it more effective, and "upon any extension of the monetary system which the increasing commerce and prosperity of the country may seem to require." Mr. Massey, the Financial Member of Council, considered "that the Commission may desire to pursue their inquiry into the expediency of giving a further development to the experiment which has been partially tried of introducing gold as part of the

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circulating medium; that nothing short of the recognition of the sovereign, or some other denomination of gold coin, as a legal tender, will suffice; and secondly, that the result of this recognition must be sooner or later the establishment of the more precious metal as the ruling standard." The Commission reported in October 1866 "that gold coins of 15, 10, and 5 rupees respectively would find more favour in the eyes of the people than notes of like value; that the introduction of gold would facilitate the establishment of the currency notes, outlying treasuries being assisted by such a measure towards the convertibility of the notes; and that the opinion is general, almost unanimous, that the currency should consist of gold, silver, and paper. With such evidence of the general wish of the country before them the Commission cannot hesitate to express a hope that the Government of India will persevere in the policy which was recommended for the approval of the Secretary of State two years ago, viz., to cause a legal tender of gold to be a part of the currency arrangements of India, that which is believed to have been erroneous in the original proposal being modified so that the rupee price of the sovereign would be correctly adjusted. The fact is clearly shown that the real par of the sovereign is somewhat above 10 rupees. If this be admitted, and the evidence is such that no doubt can be entertained with regard to the fact, the Commission may perhaps be excused for believing that the Government of India had not the advantage of exact information when it adopted the views imparted to the Secretary of State in 1864."

It is important to note that in the following year (1867) the first of the four great conferences on

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currency problems, known as International Monetary Conferences, *par excellence*, was held in Paris between the representatives of eighteen of the principal countries of Europe and the United States. There were few indications of the absorbing topics of the subsequent conferences, viz., the future of silver and bimetallism. At this conference gold was declared to be the only standard suited to international money, and a single gold standard, with the consequent scramble for gold, now received almost official recognition. A scarcity of gold was anticipated by the Conference, and a resolution was adopted that "in countries that have had the silver standard up to this time, as well as in those of the double standard, the relation between the value of gold and silver should not be established at a rate too low to permit the serious introduction of gold." These facts are significant, and their importance will be evident in the difficulties that India had to meet in the third period of her currency history.

On the retirement of Mr. Massey in 1868, Sir Richard Temple was appointed. Unlike Mr. Massey he possessed abundant energy and, on assuming charge in April 1868, proceeded to examine currency questions with great zeal and assiduity. In a minute dated June 1868, he showed that the Notification issued in November 1864 to encourage the circulation of the sovereign had remained inoperative, ten rupees not being sufficient to attract sovereigns, as the rate was somewhat below the average market value of the sovereign. This view, Sir Richard Temple said, was further enforced in the Mansfield Currency Commission's report, and it was desirable to consider the question of raising the rate somewhat above ten

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rupees. In October 1868, therefore, a notification was issued modifying that of November 1864, so that the rate for receipt of sovereigns and half-sovereigns at public treasuries was raised from R. 10 and R. 5 to R. 10-8 and R. 5-4 respectively. The gold pieces in Section 7 of Act XVII. of 1835, quoted above, were also henceforth to be received according to the values stated in that Act, *i.e.* at the rate of 15 rupees to the mohur.

In 1870 previous legislation on coinage was consolidated and amended, and passed into law as the Indian Coinage Act, No. XXIII. of 1870.

The two chief currency events during the last four years of this period were (1) the fall in the gold value of the rupee, and (2) further efforts to introduce gold into circulation. In 1870-71 the gold price of silver and the Indian exchange on London fell steadily. This resulted in serious disturbances to Indian trade, and by 1873 we see the beginning of an agitation that lasted until the closing of the Mints to the free coinage of silver. In 1872 Sir Richard Temple laid before the Government of India a comprehensive memorandum, together with appendices on the subject of a gold currency. His views were briefly that a gold currency was wanted in India; that a gold coinage (representing 15, 10, and 5 rupees) was already in existence, but these coins were not legal tender; that Government should decide that a legal tender gold currency was required; that a Commission should be appointed in order to ascertain definitely what should be the rating or the relative value of gold and silver; that in the meantime certain subsidiary measures should be taken in order to attract gold in greater quantities to the treasury in India. The Finance Member for-

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warded a series of notes by Mr. G. Dickson, Secretary to the Bank of Bengal, who recommended (1) the receipt of English and Australian sovereigns into all the Government treasuries of India, without restriction, and whether tendered in payment of Government dues or in exchange for silver ; (2) in conformity with the provisions of the Currency Act the issue of currency notes should be similarly authorised in exchange for gold bullion tendered at the Mint for coinage into Indian gold sovereigns at the rate of 10 rupees for 120 grains of gold of standard fineness, less seigniorage. It is interesting to note how these proposals anticipated later events. We shall have again to refer to Mr. Dickson in connection with his memorandum of 1867 on a proposal to amalgamate the three Presidency Banks. Mr. Dickson, it may be mentioned, was in the service of the Bank of Bengal from February 1860 until his resignation in September 1872, and his services as a non-official adviser in financial affairs in this period were unmistakably great. Before joining the service of the Bank of Bengal he was Secretary and Inspector of the Caledonian Banking Company, Inverness, where his practical ideas on currency and banking were obtained. In July 1873 Sir Richard Temple again put forward his views in a memorandum, but the Council of the Governor-General was not unanimous, as there were some who deprecated any immediate steps being taken by Government. The upshot finally was that on May 7, 1874, the Government of India issued a Resolution which clearly defined their attitude. It ran as follows: "The expediency of introducing a gold currency having been considered, the Governor-General in Council is not at present prepared to take any

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step for the recognition of gold as a legal standard of value in India."

This closes the second of the four periods into which the currency history of the nineteenth century divides itself. From 1859 it was a period of financial reconstruction begun by the great Wilson and carried on by his worthy successors. It is sometimes difficult to realise how chaotic was Indian finance after the convulsion of 1857. We have, however, only to turn to the official papers of the period. In his first speech to the Legislative Council, February 18, 1860, for example, the Finance Member incidentally remarked: "Very recently it was discovered that, in furnishing the accounts from Bombay of the military expenditure, an error had been made of nearly £600,000, and in those from Madras an unexpected increase in the Commissariat Department took place to the extent of £300,000. In the Public Works Department also an unexpected increase of a considerable amount has taken place. Then again, the September account was furnished without any reference to Railway advances for interest on the one hand, or receipts from traffic on the other, which makes a difference of £833,300." It is unnecessary to give other examples. But one thing is certain, and it is this: that India owes an incalculable debt of gratitude to this Scotsman whose inexhaustible vigour, marvellous memory, and remarkably even judgement were invaluable in this financially critical period. Like Bagehot and the late Sir Inglis Palgrave he knew his Adam Smith through and through, and he approached the whole subject of economics, especially that part of it, finance, from the practical and realistic standpoint. In his minutes and in his speeches the influence of the teaching of

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Adam Smith is clearly discernible, and he does not fail to quote him to bring home his arguments, as, for example, in the speech introducing the Paper Currency Bill, March 3, 1860: "Adam Smith, I think, it is who compares the economy (of using paper currency) to a discovery by which all your locomotion could be conducted without roads, and by which you were enabled, therefore, to add the existing roads to the portion of the land under reproductive cultivation." He was, however, the exact antithesis of Adam Smith that "awkward Scotch professor, apparently choked with books and absorbed in abstraction. He (Adam Smith) was never engaged in any sort of trade, and would probably never have made sixpence by any if he had been. His absence of mind was amazing. On one occasion, having to sign his name to an official document, he produced not his own signature, but an elaborate imitation of the signature of the person who signed before him."[1] How different was Wilson, the pre-eminent Financial Member of Council during the period of the building up of India's finances.

IV

The Third Period (1874–1893)

The Struggle for Bimetallism

No period of our currency history is so rich in literature as is the third period, 1874–1893. The ink used in official despatches, minutes, House of Commons papers, the *procès-verbaux* of the monetary

[1] "Adam Smith as a Person," vol. vii. *The Works and Life of Walter Bagehot*, Mrs. Russell Barrington.

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Conferences of 1878, 1881, and 1892, not to mention the reports of the Gold and Silver Commission, and the Herschell Committee on Indian Currency, was sufficient to float almost a dreadnought. A perusal of the official papers that have been published prompts one to the belief that in regard to this important question Government, like the general public, wrote much and almost did nothing but write. Although the link between gold and silver was broken by 1874 nothing was done until nineteen years later, in June 1893, when the Indian Mints were closed to the free coinage of silver. A cynic might say that we practised a different economy from that which prevails in the farmyard, and sat contentedly upon eggs that had long since been addled; that, in other words, the currency machine was the master of the man, not the man of the machine. It must be remembered, however, that despite the action of the Latin Union and the failure of the monetary Conferences of 1878 and 1881, bimetallism was still a practical question provided an international agreement could be reached, and it was only after the failure of the Brussels Conference in 1892, and the desire of the Home Government to keep to the monometallic standard for the United Kingdom that bimetallism was no longer a feasible one for India.

The year 1874 is a convenient landmark. It was, as we have seen, the year in which the Government of India came to a definite conclusion in regard to the recognition of gold as a legal standard of value. It was, too, the year which had the painful honour of bowing out Sir Richard Temple, and of ushering in a permanent successor in Sir William Muir, then Lieutenant-Governor of the North-Western Provinces and

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afterwards a member of the Secretary of State's Council until his resignation on appointment to the Principalship of Edinburgh University. The year 1874 was also the real beginning of the most significant fact of the currency history of the century, the great change in the monetary status of silver. This was a question of profound importance to India, and the popular question at the time of this long and exciting discussion was, "Are you a bimetallist or a monometallist?" In December 1871 Germany began to abandon her silver standard, and her example was followed by Denmark, Sweden, Norway, and later by Holland. In January 1874, the Latin Union—France, Belgium, Italy, and Switzerland—suspended the free coinage of silver. Gold and silver for the first time since the French law of the 7th Germinal, An. XI. (1803) (which enabled one metal to take the place of the other as an unlimited legal tender) were used as a circulating medium without, as it were, any connecting pipe between the reservoirs of gold and silver. The precious metals became in relation to one another simply commodities. There was none of what Jevons would have called equilibratory action which distributed an excessive supply or demand over both. From this year bimetallism very slowly and imperceptibly and with great difficulty began to move off the stage of practical politics, notwithstanding that there were many in India and elsewhere who believed it to be possible by international agreement. Bimetallism was, of course, a system by which the Mints were open to coin any quantity of either gold or silver that was brought to them, and debtors could discharge their liabilities at their option in either gold or silver at a ratio fixed by law.

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The period 1874 to 1893 is then the period of the fall in the gold price of silver. It is sometimes known as the period of the depreciation in the price of silver, although this is open to objection, since it contains the suggestion that it was silver that had changed while gold had not. As the Report of the Gold and Silver Commission, 1888, reminds us, this is a debatable point. Looking back over this period we see that with the fall in the gold price of silver there was a general fall in the gold price of commodities due, among other causes, to the increased demand for gold in gold-using countries. The change in this respect in Europe is seen in the following statistical table :

STATES UNDER A GOLD STANDARD.

	1871.	1881.
Population . . .	36,000,000	140,000,000
Foreign trade . . .	£625,000,000	£1,850,000,000

The annual average production of silver in 1881–85 exceeded that of 1866–70 by 100 per cent in quantity, and nearly 70 per cent in value ; that of gold fell during the same period by nearly 21 per cent. For forty years preceding 1873 there was a difference of only $2\frac{7}{8}$ between the highest and lowest annual average price of bar silver in London ; between 1873 and 1887 the difference was $14\frac{5}{8}$d. The Gold and Silver Commission was unanimously of opinion that while gold had been much more in demand for currency, in Germany, the United States, and other countries, it seemed doubtful whether there had been, on the whole, any great diminution in the use of silver for currency purposes. It was in the opinion of the Commission impossible to conclude that the circumstances connected with the supply of the two metals sufficiently accounted for the altered conditions in the relative

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value since 1873. Up to 1878 the agitation for reform in India was directed chiefly to the closing of the Mints to the free coinage of silver and the adoption ultimately of a gold standard. From 1878 to 1893 was the period in which strenuous attempts were made for international bimetallism. This was, too, the heyday of those aimless discussions on bimetallism based on international agreement, a system of currency which was only discarded by the Government of India when the Brussels Conference definitely showed that all hope of international agreement had gone for ever.

In consequence of the steady fall in the gold price of silver and in the Indian Exchange on London since 1871, the Bengal Chamber of Commerce passed a resolution in July 1876 "that Clause 19 of Act XXIII. of 1870, making it obligatory on the Mints in India to receive all silver tendered for coinage, and also Section 11, Clause (*b*), of Act III. of 1871, making it obligatory on the Currency Department to issue notes against silver bullion sent in, be temporarily suspended at the discretion of Government; and that during such suspension, or till further notice, it be not lawful to import coined rupees from any foreign port." The object was not to prohibit coinage altogether, for that would be likely to bring about a collapse of credit, but to place all coinage in the hands of Government, to be exercised at their discretion. A proposition recommending the adoption of a gold standard was put before the meeting, but temporarily withdrawn in deference to the feeling apparent among members present. In August of the same year, the Calcutta Trades' Association supported "a temporary suspension of the compulsory coinage of silver." In

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September 1876, Government published a Resolution on the injury to Government and to the public arising from the depression of silver relatively to gold. Restriction could not be put on the coinage of silver, without its ceasing "*ipso facto*, to be the standard of value," which would then be "the monopoly value of the existing stock of rupees, tempered by any additions made to it, either by the Government or in an illicit manner." European countries which had abandoned the silver standard had simultaneously adopted a gold standard. Government held that there was, in spite of the anxieties and inconveniences of the silver standard, no reason to adopt a measure so costly as a gold standard of which all the requisite conditions were then so uncertain. Their conclusions were (1) that the divergence of the values of gold and silver was not necessarily attributable only to a diminution in the value of silver; that there were strong reasons for believing that gold had increased as well as that silver had decreased in value; and that this consideration must have an important bearing on the action of Government in reference to currency difficulties; (2) that, although it was most desirable, in the interests of trade, that the standard of value in India should be the same as the standard of value in the chief countries with which India interchanges commodities, yet trade would not be permanently injured by a fall in the value of the rupee measured in gold, provided only that a fresh stable equilibrium of the precious metals was attained; (3) that there was no sufficient ground for interfering with the standard of value. In forwarding the papers to the Secretary of State, the Government of India urged the advantage of "some concerted action between France and India, to which other countries might perhaps become parties," and suggested that France should be informed that, failing this, the adoption of a gold standard in India might be necessary. The Secretary of State did not reply to this letter.

In various essays written in 1876, 1877, and 1878,[1] Colonel J. T. Smith, formerly Mint Master at Madras, suggested the closing of the Mints to the free coinage of silver; that silver rupees should continue to be legal tender; that Government should receive gold bullion at the rate of Rs. 38/14 per standard ounce, and coin sovereigns (or 10-rupee pieces) and half-sovereigns (or 5-rupee pieces) which should be with rupees legal tender but not demandable; the Secretary of State should undertake to deliver bills at a fixed rate to all comers, and should send to India, for coinage on behalf of Government, any silver in excess of the requirements of the Home Treasury; the imports and circulation of foreign silver coins must be discouraged. The Secretary of State on the suspension of silver coinage should sell bills in excess of his requirements, as there is always a demand for remittances to India greatly in excess of the Home charges to the extent of 1¼ millions in three months, or, if he wished to operate more rapidly, he should give notice that the rate would be raised a farthing per rupee for every six weeks up to 2s., and undertake to grant bills at those rates to all applicants; when the rate should have risen to 2s. he should sell bills to all comers in future at that rate. When the rate of 2s. was nearly attained, gold would flow to India for coinage; in

[1] *Silver and the Indian Exchanges; a Remedy for its Depreciation, in Seven Essays*, by Colonel J. T. Smith, F.R.S. (Effingham Wilson, London).

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due course the gold coins would be made demandable, and the payments in silver would be restricted. The rupees would not be exported, as outside India they would have only a token value, and, as they would within India retain their full local value, they would not be demonetised, and no other currency need be substituted. Prices not having yet been affected by the fall in the value of silver, there would be no embarrassment from giving the rupees a monopoly value; the change to a gold standard would take place quite insensibly, while there would be no double standard, as either metal would have, on delivery, to be measured by the gold standard. Colonel Smith believed that the abnormal stimulus given to the export trade would be checked; but the currency would be automatically regulated by the constant expansion of commerce. By slightly altering the price of bills or the Mint regulations, silver or gold could be attracted to India from time to time, as required.

It was in 1876 that Mr. A. M. Lindsay first suggested that Ricardo's scheme for a sound currency be adopted in India. Mr. Lindsay, like Mr. Dickson, belonged to the Bank of Bengal, which he joined in 1869, having for two or three years been employed in a mercantile firm in Calcutta. He retired in 1904. The details of this scheme will be examined in Chapter V. where the gold exchange standard is discussed.

In August 1878 the second international monetary Conference took place in Paris. Since 1867 international bimetallism as a remedy for currency maladies had become more popular, and the President of the United States was directed by Congress in February

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1878 to invite the Governments of Europe to join in a "Conference to adopt a common ratio between gold and silver for the purpose of establishing internationally the use of bimetallic money, and securing fixity of relative value between those two metals." The Conference, at which twelve countries were represented, excluding Germany, recognised that it was necessary to maintain the monetary functions of silver as of gold, but declined to fetter the discretion of the particular states. The legislature of the United States in the same year (February 1878) made a strenuous effort in the direction of bimetallism by passing the Bland-Allison Act, which required the Government of that country to purchase not less than 24,000,000 and not more than 48,000,000 dollars' worth of silver per annum, which would be equal to a consumption varying from 20,625,000 to 41,250,000 ounces per annum. Under the authority of that Act the United States Government purchased yearly the minimum amount required, but the price of silver continued to fall.

These events abroad were, of course, not without their effect on the price of silver and on Indian exchange. The improvement that took place for a time in the value of silver in 1877 favoured inaction; but after the close of the Paris Conference it was evident, when a fresh fall brought down the rupee to a value only slightly above that of July 1876, that inaction could no longer continue.

[TABLE

GOLD PRICE OF SILVER AND THE AVERAGE RATE OF EXCHANGE

Year ended March 31.	Average price of silver. (Pence per oz.)	Average rate of exchange. (Pence per rupee.)
1874 . . .	$59\frac{1}{4}$	22·351
1875 . . .	$58\frac{5}{16}$	22·221
1876 . . .	$56\frac{7}{8}$	21·645
1877 . . .	$52\frac{3}{4}$	20·491
1878 . . .	$54\frac{13}{16}$	20·790
1879 . . .	$52\frac{9}{16}$	19·761
1880 . . .	$51\frac{1}{4}$	19·961

In a long despatch extending to no less than seventy-five paragraphs dated November 8, 1878, the Government of India pointed out the serious difficulties in which India was placed through the fall in the price of silver, and the heavy loss involved in effecting the necessary remittances to London. They pressed for the establishment of a gold standard in order to protect themselves from the very real and serious dangers of the present system. British or British-Indian gold was to be received in payment for any demands of Government, at rates to be fixed by Government from time to time until exchange settled itself sufficiently to enable the rupee to be fixed permanently in relation to the £ sterling at 2s. Simultaneously, the seigniorage on silver coinage would be raised so that the cost of a rupee to persons importing bullion would be equal to the value given to the rupee in comparison with these gold coins. Under this system silver would be admitted for coinage, at the fixed gold rate, as the demands of trade necessitated, while a certain limited scope would be given for the introduction of gold coin, so far as it was found convenient or profitable. To relieve the Currency

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Department of the liability to give notes in exchange for silver bullion, and to provide for the issue of notes for gold, the paper currency law would be altered. This would mean that notes may be discharged in gold or silver. The import of coined silver would be prohibited. Provision was also made for Government to terminate, if necessary, the operation of the proposed law by an executive order and also to prevent hardship to holders of bullion bought or contracted for before the proposed announcement of the raising of the rate of seigniorage and the stopping of the issue of notes in exchange for silver bullion. Government considered it inexpedient to interfere with the British Indian gold coins, although they aimed at the eventual adoption of British gold coins. The accumulation of a certain proportion of British gold coin in the paper currency reserve would, it was believed, be useful in meeting any sudden fall of exchange. They did not advise the immediate recognition of gold coin as legal tender, as this would be a departure from the existing condition of things, and it might tend to stimulate the process of transition from a silver to a gold currency, which it should be the object of Government to check at the outset. The acceptance by Government of gold coins in payment of its demands would secure for the present the needful facilities for the import of gold. At a later period it might be necessary to throw open the Mints for the coinage of sovereigns and half-sovereigns as in Australia. When this took place the old British Indian coinage should cease, as it had no legal status, and its disappearance would not have any effect on the currency. The Secretary of State referred the matter to His Majesty's Treasury, and it was subsequently referred for special con-

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sideration to certain officers of the Imperial Government and of the India Office. On this Committee of seven were Welby, Farrer, and Giffen. The Committee unanimously reported against the proposals of the Government of India and the Secretary of State accepted their report. In December 1879 the Secretary of State forwarded the views of the Lords Commissioners of Her Majesty's Treasury, received only in November 1879, and he repeated that Her Majesty's Government could not authorise the proposed change in the currency system of India. The English Treasury considered that the Government of India had not proved that the prospective risks were imminent, and with reference to the Government of India's remark that the responsibility in urging action in the matter is only apparently greater than that involved in doing nothing, it dryly remarked: "Nor can my Lords admit that the responsibility for doing nothing is as great as that for doing something. The present evils are not (immediately, at all events) the results of any Governmental action, while the responsibility of the proposed scheme would rest wholly with the Government. Of one thing my Lords are sure, that it is better to sit still, than to have recourse, under the influence of panic, to crude legislation, the result of which cannot be foretold and the effect of which cannot be measured."

From this time onwards until 1892, the Government of India gave to bimetallism their most careful attention. In reply to the Secretary of State's despatch of December 1879, they forwarded a Memorandum by their Financial Secretary (Mr. Chapman). This Memorandum was written to show that the bimetallic standard was the best system of currency;

that this could be obtained by international agreement between the United States, France, Germany, and India, or even the United States, France, and India; and that the ratio between gold and silver should be that prescribed by the French Monetary Law of 1803, namely, $1:15\frac{1}{2}$. Both the Viceroy (Lord Lytton) and the Finance Member of Council, Sir John Strachey, emphasised the "unquestionable and quite incalculable" financial benefit to India from international bimetallism. On the resignation of Sir John Strachey (who had held the financial portfolio from December 1876 to December 1880) the same policy was pursued by Lord Cromer (then Major Evelyn Baring), Finance Member from December 1880 to August 1883, and also by Sir Auckland Colvin (1883–1887).

The gold price of silver and the average rate of exchange during this period were as follows:

Years ended March 31.	Average price of silver. (Pence per oz.)	Average rate of exchange. (In pence per rupee.)
1880 . . .	$51\frac{1}{4}$	19·961
1881 . . .	$52\frac{1}{4}$	19·956
1882 . . .	$51\frac{11}{16}$	19·895
1883 . . .	$51\frac{5}{8}$	19·525
1884 . . .	$50\frac{9}{16}$	19·536
1885 . . .	$50\frac{5}{8}$	19·308
1886 . . .	$48\frac{5}{8}$	18·254
1887 . . .	$45\frac{3}{8}$	17·441

In June 1881 Government suggested to the Secretary of State, who inquired as to their views in the event of its being proposed that India should become a member of a Union based on principles of bimetallism for a limited number of years, that, as they never knew what their loss or gain in exchange was to be, silver having failed to fulfil the chief

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function required of a standard of value, they would be ready to keep the Mints open to the free coinage of silver, not merely for ten years, but for the period during which the convention of other nations might remain in force; and "other nations will be assured that in the event of their taking measures the result of which will be the rehabilitation of silver, India will be under an obligation not to take advantage of those measures in order to adopt a single gold standard." From this despatch, as shown in the published correspondence,[1] the Viceroy (Lord Ripon) dissented. His Excellency, while willing to consider any measures to promote the re-establishment of the value of silver, did not favour bimetallism, and no information he considered had been furnished to show what would be the effect in India itself of the introduction of a legal tender gold coinage. In July 1881 the third international monetary Conference was convened by the joint action of the French and American Governments "to examine and adopt, for the purpose of submitting the same to the Governments represented, a plan and a system for the establishment of the use of gold and silver as bimetallic money according to a settled relative value between those metals." Nineteen countries were represented. The proposals of the French and American Governments met with opposition and the Conference adjourned after thirteen sittings, never to be re-convened.

In the early months of 1886, on account of the fall in silver, illustrated in the table above, the Government of India telegraphed and subsequently wrote to the Secretary of State that a determined effort should be made to settle the silver question

[1] House of Commons Paper 449 of 1881.

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by an international agreement. The Secretary of State pressed on the English Treasury the importance of making every endeavour towards some settlement by international agreement as to the revival of the free coinage of silver and the comparative stability of the relative value of gold and silver. The Secretary of State sent a copy of the despatch of the Government of India to the Treasury. The Treasury replied on May 31, that the proposition of the Government of India that the establishment of a fixed ratio between gold and silver was not beyond the possibility of human control was "one of the most disputable and disputed points in Economic Science"; that the representatives of Her Majesty's Government at Paris in 1878 had said "that the establishment of a fixed ratio between gold and silver was utterly impracticable," and that on a previous occasion the proposals for a remedy of the evils complained of were pronounced inadmissible. There was little that was new, the Treasury believed, in the present state of the facts to change this view, but that meanwhile the whole subject was understood to be under the consideration of the Royal Commission on the Depression of Trade which was appointed in 1885. As a result of a recommendation of this Commission, another Royal Commission was appointed in 1886 "to inquire into the recent changes in the relative values of the precious metals, shown by the decrease in the gold price of silver." Sir David Barbour was India's representative. The Commission reported in 1888, and the re-establishment of bimetallism now appeared to be impossible except by international agreement, and that agreement, it was now becoming obvious, could never be obtained. As one half of the

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Commissioners said with regard to bimetallism, "the change proposed is tremendous; and we cannot but feel that to a great extent it would be a leap in the dark. The public mind certainly is not prepared for it at present. . . . Under all these circumstances, whilst fully impressed with the difficulties of the present situation, and more especially with those which affect the Government of India, we are not prepared to recommend that this country should proceed to negotiate with other nations a treaty embodying a bimetallic arrangement."

While the letter from the Government of India was under the consideration of the English Treasury, the Secretary of State forwarded to India in April 1886 a Memorandum by Sir Richard Strachey in favour of a gold standard, suggesting "measures for the regulation of the coinage of silver in India, in the event of no other means being found to relieve the Government of India from the effects of any further fall in the exchange value of the rupee." The proposal of closing the Mints to the free coinage of silver was similar to that of Colonel Smith in 1876 and of Government in 1878, although it differed from these schemes in some important respects. His first proposal was to suspend that part of the Indian Coinage Act of 1870 which required the Mints to coin whatever silver was brought to them. Secondly, so long as the Mints were closed against the unlimited tender of silver, they should be open to the tender of gold, a stated maximum number of rupees, say 13 (*i.e.* about 18d. to the rupee) "being given in exchange for the gold contained in a sovereign. The gold would not be coined and would merely serve as a medium by which to measure the future cost

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of the rupee; so much of it would be sold, or exchanged for silver bullion, as would supply the quantity of silver required for the coinage of the requisite number of rupees to be given in exchange at the fixed rate, and the residue would be retained by the Mint, and virtually be a charge of the nature of seigniorage. Power should be given to revoke the suspension and then the free coinage of silver on the original basis would be revived. Consequently the Mint would always be open either to gold or silver." Under this scheme gold would have only been required in small quantities, far less than what found its way at that time to India in the ordinary course of trade. To facilitate remittances from England, the Secretary of State might give "to any one, on payment in London of the proper gold seigniorage, authority for having coined in India without further payment of seigniorage, specified amounts of silver bullion." It was further suggested that to prevent Government coining for itself, "it might be thought desirable to declare that the gold seigniorage received by the Mints should be sold in India, or remitted to England, and further that the Mints should not coin for the Government, so that any extraordinary Government demand for silver money would have to be met by borrowing in India." Sir Richard Strachey's scheme was to give India a gold standard of value, without discontinuing the existing silver coinage or interfering with the general system of currency, and without introducing a gold coinage. His scheme at the same time was also intended to provide for the automatic expansion of the currency to meet trade requirements. In July 1886 Government replied to the Secretary of State and said that they were opposed to a gold standard

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in place of the silver standard, even though the currency should temporarily, at any rate, continue to be composed of rupees maintained at an artificial value by restrictions on the free coinage of silver. In the opinion of the Government of India, Sir Richard Strachey proposed a currency which could not without loss be changed into uncoined metal. That was the first difficulty which the scheme presented to the Government of India. It was, in the second place, doubtful whether it would be possible to maintain the rupee at the rate of exchange which might be chosen, and it would be a fatal thing to adjust periodically the standard. If the rupee were raised considerably above its intrinsic value, rupees would come out from hoards and Indian States, and as a result there would not likely be a demand for new coinage, and, as bills must be sold by the Secretary of State in London, it may happen, the Government of India thought, that the fixed rate of exchange accepted by Government would not be obtained for such bills. It was also considered that the closing of the Indian Mints to the free coinage of silver would have a very injurious effect on the silver market, and this might itself bring about a wide difference in the accepted ratio between silver and gold as compared with the accepted ratio between the rupee and gold. It was also believed that the true remedy lay in obtaining concerted action with England and in the establishment of an international agreement. With this despatch on Sir Richard Strachey's gold standard proposals were forwarded the opinions of the Presidents of the Chambers of Commerce at Bombay and Calcutta, the Secretary to the Bank of Bengal, the Comptroller-General, and the Financial Secretary to the Government of

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India who adversely criticised the scheme. Those in favour of international bimetallism won the day.

Sir David Barbour returned as Financial Member of Council to India in 1888, fresh from his invaluable experience of two years as a Member of the Gold and Silver Commission. He held the financial tiller for the usual period of five years until his retirement from India in 1893. At first glance it may seem puzzling that India should have successfully pressed in 1892 for a gold standard during the regime of so distinguished a bimetallist as Sir David Barbour undoubtedly was. It is difficult to call him the fond parent of the scheme. During the discussion of great public questions the most important truths which relate to such questions are "in the air"; many see them or almost see them, and it is not an easy matter to trace the exact parentage of them. Sir David Barbour had been always a strong opponent to the introduction of a gold standard in India, especially at the rate of exchange of 2s. per rupee, and he believed that bimetallism was the best in the interest of India. He realised at the same time that the great divergence in the relative value of gold and silver was, especially in the later 'eighties, a serious obstacle to his ideal. The injurious effects on India of the United States probably ceasing to purchase silver, as provided under the Sherman Act, combined with the obvious advantages of possessing the same standard of value as that of the United Kingdom, led to a reconsideration of the whole question with a view to a final decision being reached. When events proved to be too strong for the adoption of bimetallism, and when the Gold and Silver Commission approved to all intents and purposes the advantages of a gold standard by not recommending the adoption of bimetallism, Sir David Barbour firmly and frankly turned to the gold standard as a solution for India's currency ills. After the lapse of nearly thirty years we can see the facts in their correct perspective, and the Finance Member's action merits nothing but the very highest praise. All he said at the time was eminently true. It was better to have a late conversion than to remain unregenerate. It is well known, too, that a converted poacher makes a first-rate gamekeeper, and in regard to the gold standard Sir David Barbour was no exception to the rule. He was anything but financially short-sighted, and he possessed in its best development the genius of sound common sense. He is the one who stands out big among the Financial Members of Council during this third period. The reasons for his conversion are set out with vigour in the Financial Statement for 1891–92 and in his *Standard of Value*. Here he showed a readiness to meet criticism, and an anxiety to carry conviction that is not, we are told, always to be found behind an official waistcoat. The position briefly was that in the three years ending March 1890 Indian exchange was on the whole comparatively steady. The following table illustrates the fluctuations during the years 1888–93 :

Year ended March 31.	Average price of silver. (Pence per oz.)	Average rate of exchange. (Pence per rupee.)
1888 . . .	$44\frac{5}{8}$	16·899
1889 . . .	$42\frac{7}{8}$	16·379
1890 . . .	$42\frac{11}{16}$	16·566
1891 . . .	$47\frac{11}{16}$	18·089
1892 . . .	$45\frac{1}{16}$	16·733
1893 . . .	$39\frac{13}{16}$	14·984

In 1890, however, the United States under the Sherman Act decided to purchase annually no less than 54 million ounces in lieu of the value of the amount required to be purchased under the Bland-Allison Act. This led to furious speculation, and by September 1890 silver had soared to the giddy height of 54⅝d. per ounce with the result that the trade between India and England became nothing short of a gamble in exchange. The highest rate obtained by the India Office for bills in the year ending March 31, 1891, was 1s. 8·91d. and the lowest 1s. 5d., the variation being the high figure of 3·91d. As the Financial Statement or Budget speech of that year puts it, the fluctuations in exchange were "so great as to more than counterbalance the effect of the other elements which the trader has to take into consideration. It has even been said, with some truth, that at one time it would have been better for the merchant to dismiss his establishment and confine himself to speculations in silver; his expenses would have been less, and his chances of profit quite as good as in his legitimate business. The serious disturbance to the trade and commerce of India which has resulted from legislation in a foreign country shows that in questions connected with the standard of value no country is independent of the action of other nations."[1] From this date onwards until the closing of the Mints in June 1893, the fate of international bimetallism hung in the balance. The forecast of the Financial Member of Council made in March 1891 in the Legislative Council was gradually becoming true. "I have no right to commit the Government of India to any opinion on the subject, but it is my belief that in case

[1] Financial Statement for 1891–92, p. 15.

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of necessity the gold standard could be introduced into this country, and that, if America altogether abandons silver, it would probably be best that India should change her standard." [1] In February 1892, when there was a prospect of an international conference, the Bengal Chamber pointed out that it was impossible to have confidence in the future value of the rupee, and trade was greatly hampered. The Chamber suggested that if international bimetallism were impossible "the Government of India should take steps to have the question of the advisability of introducing a gold standard into India carefully and seriously considered by competent authorities." In the following month the Government of India forwarded this correspondence to the Secretary of State and urged him to support proposals which the United States or any other country might make towards an international settlement of the silver question. It was believed that the contingency of the United States being forced to stop the purchase and coinage of silver, should an international agreement fail, was not to be lightly set aside. The Home Government were asked to take what measures were essential to protect Indian interests. The Secretary of State laid copies before Her Majesty's Government and informed the Government of India in June that, on the invitation of the President of the United States, the British Government had decided to take part in a conference at Brussels "to consider by what means, if any, the use of silver can be increased in the currency system of the nations." In the same month (June 1892) the Government of India addressed the Secretary of State. While learning with satisfaction that an international

[1] Financial Statement for 1891–92, p. 18.

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conference for the extended use of silver was to take place and that the importance of Indian interests being properly represented was recognised, they did not overlook the strong opposition to the introduction of the system of double legal tender into Great Britain manifested in certain quarters, and they observed with regret that the conference had been summoned only to consider the question of the more extended use of silver as currency, and not the adoption of an international agreement for the free coinage of gold and silver, and the making of both gold and silver coins legal tender at a definite and uniform ratio. The effects of the difficulties of a fluctuating and falling exchange on Government, and on all those who had to make remittances on a gold basis were briefly but tersely set out. The Government of India recorded their deliberate opinion to be that, if the Brussels Conference should fail, or if no agreement could be come to with the United States, (1) the Indian Mints should be closed to the free coinage of silver; and (2) arrangements should be made for the introduction of a gold standard. "In arriving at this conclusion," they said, "we have been mainly influenced by a consideration of the fact that the abandonment of silver by the United States of America would involve the perpetuation of all the evils from which we have suffered during the last twenty years, and possibly their perpetuation in an aggravated form, unless steps are taken for the establishment in India of a gold standard. We believe that public opinion in India is ripe for the adoption of decisive measures, that the stoppage of the free coinage of silver would be generally approved, and that we might safely count on receiving every reasonable assistance from

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the Commercial and Banking classes in the attempt to introduce a gold standard." Appended to this despatch was a minute by the Finance Member outlining the proposals. In July the President of the Bengal Chamber of Commerce, the Honourable Mr. J. L. Mackay (now Lord Inchcape) forwarded to the Finance Department a petition from the Indian Currency Association containing 12,000 signatures, of which nearly 5000 were those of Europeans and the remainder of Indians. The petition recited the serious disadvantages of a depreciating rupee currency and requested that everything should be done to ensure that the Brussels Conference (then about to meet) should result in a definite agreement. "If, however, the Conference should fail, like its predecessors, to arrive at a satisfactory solution of the questions referred to it, your petitioners pray that the Government of India may be fully empowered to take such measures as may to it seem fit for the adoption of the only remaining effectual remedy, viz. a gold standard." The Association further requested that as the Conference like its predecessors would probably come to nothing and silver would fall still lower, the Government of India may be given the power so that it could be exercised without delay after the termination of the Conference. This and similar memorials from various parts of India were forwarded to the India Office. By July 1892 the fate of bimetallism seemed almost sealed. The price of silver had fallen as low as $39\frac{1}{16}$d. notwithstanding that the United States Government were purchasing from 35 to 43 per cent of the world's production under the Sherman Act, and India all the while was increasing her imports of the white metal. A large increase in the world's

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production was also taking place, as will be seen from the following table :

Year ending March 31.	Net imports of silver into India.	World's silver production.	Percentage of col. 2 to col. 3.	Average price of silver per ounce in pence.	Average rate of exchange (in pence per rupee).
1.	2.	3.	4.	5.	6.
Quinquennial average year ending 1880 . . .	24,723	68,093	34	53	20·530
Do. 1885 . .	21,310	82,206	24	51	19·644
Do. 1890 . .	33,924	102,015	31	44	17·108
Year 1891 . .	51,259	126,095	37	47	18·089
Do. 1892 . .	32,348	137,170	22	45	16·733
Do. 1893 . .	45,524	153,152	27	39	14·984

NOTE.—(1) The quantities in column 2 for the years 1873–74 to 1886–87 are deduced from the declared values of the trade for these years.
(2) Percentages in column 4 have been worked out on the basis of fine ounces.

In October 1892, before the International Conference met, the Secretary of State referred the proposals of the Government of India to a Committee of which Lord Herschell, the Lord Chancellor, was Chairman. The terms of reference were to consider the proposals of the Government of India and to advise whether it was expedient that these should be carried into effect with or without modification. The Members were, in addition to the Chairman (Lord Herschell), Sir Thomas (afterwards Lord) Farrer, for many years the distinguished Secretary to the Board of Trade, Lord Welby, a lion of the Treasury, and an official of very exceptional experience, Lord Kilbracken (Sir Arthur Godley, the senior permanent official of the India Office), Lieutenant-General Sir Richard Strachey (the author of the gold standard proposals of 1886), Mr. Leonard Courtney, well known as Chairman of

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Committee of the House of Commons and then a recent convert to bimetallism, and Mr. B. W. Currie. In January 1893 the Secretary of State asked the Governor-General in Council briefly to specify in greater detail the action proposed in order to establish the gold standard after the Mints were closed. A draft bill closing the Mints to the free coinage of silver was thereupon forwarded to London, and, as regards the proposal of opening the Mints to the free coinage of gold, it was proposed to take power to issue a notification declaring that English gold coins should be legal tender in India at a rate of not less than 13⅓ rupees for one sovereign (*i.e.* 1s. 6d. per rupee). By this means exchange would be prevented from rising above 1s. 6d. per rupee. As some had expressed the apprehension of a sudden and large rise in exchange this would allay all fears on this score. It was also suggested that (1) an interval of time (which could not be determined beforehand) should elapse between the closing of the Mints and the coining of gold in India; and (2) power to admit sovereigns as legal tender might be an *ad interim* measure, not to be put into force except in case of necessity. Memorials to the Secretary of State continued to pour in. In a despatch dated May 3, 1893, no less than 235 memorials were forwarded. Ten days later the embarrassing effect of the recent fluctuations of exchange was again pointed out by the Indian Currency Association to the Government of India and communicated to the Secretary of State. The Herschell Committee, however, shortly after submitted its report which is dated May 31, 1893. The Secretary of State sent a copy of the draft report on May 26, an official copy on June 2, and a telegraphic summary on

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June 7. No time, therefore, was lost. The Government of India replied by telegram on June 15, and five days later it was decided to close the Mints to the free coinage of silver and to make arrangements for the adoption of a gold standard, subject to the modifications made by the Herschell Committee and referred to in the following chapter.

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CHAPTER V

INDIAN CURRENCY IN THE NINETEENTH CENTURY (*continued*)

V

The Fourth Period (1893–1900)

(1) *The Gold Standard*

The new ship was launched with conspicuous skill on June 26, 1893, by Sir David Barbour, who continued in office until five months later, retiring in November of that year. He was ably assisted by his colleagues in the Executive Council, at the head of which was Lord Lansdowne, and also by Lord Inchcape, the President of the Indian Currency Association. Sir David Barbour was succeeded by Sir James Westland, who for over five troublous years was the Chancellor of the Exchequer of the Government of India. Sir James Westland, the eldest son of Mr. James Westland, manager of the Town and County Bank, Aberdeen, and brother of Mr. William Westland, Deputy Secretary of the Bank of Bengal, passed, after his education in Aberdeen, first into Woolwich in January 1861. He decided not to follow a military career, and passed first into the Indian Civil Service in July of that year. Gifted with rare

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mathematical talent, he did great work, especially as a codifier of pension and leave rules, of general financial procedure, and as a converter of the public debt, which saved annually nearly fifty lakhs of rupees to the revenues of the State. As an expert in currency he did not rank with James Wilson or Barbour, but he had, what was the most essential qualification of a Financial Member of Council in this period, a large amount of caution, a distinctively national trait. He was not perturbed by those financial storms which sometimes arise in the clearest skies. His infinite patience, unruffled serenity, and a craving for more light in the working of the new standard were great assets, especially when he was confronted with the serious and unexpected difficulties of the next few years.

Sir David Barbour realised that practical statesmanship required the acceptance of the inevitable, and making the most of the present and future. He saw that it was useless crying over spilt milk, and wasting time in vain regrets for what might have been had international bimetallism won the battle of the Standard. Government were of opinion that it was impossible to stand aside and leave things to take care of themselves. There was the increased burden measured in rupees of the external liabilities of India, payable, of course, in gold; there were the effects of uncertainty that was introduced by the great fluctuations not only in Government finance but also in trade finance. The Herschell Report, a remarkable State document written in a clear scholarly style, set forth with lucidity the considerations which compelled this leap in the dark. The fall in exchange proved a serious financial difficulty to

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Government. In 1892–93, with an average rate of exchange of 14·985d., it required Rs. 26,48 lakhs to remit 16½ million sterling in order to discharge gold obligations in England, that being Rs. 8,73 lakhs more than would have been required had exchange stood at the same point as in 1873. The whole of the 8,73 lakhs could not, the report points out, be regarded as a loss to Government on account of the fall in exchange. It was certain, however, that India had actually to remit in the year 1892–93 upwards of Rs. 8,70 lakhs more than if exchange had been at its former point. In the second place, the United States Government was absorbing about 54 million ounces out of a world's production of 153 million ounces, and "it cannot be regarded, then, as otherwise than within the reasonable bounds of possibility, that a repeal of the Sherman Act might lead to a fall in the price of silver of even 6d. per ounce or more, and that there might be no substantial reaction from the level thus reached. Such a fall would, it may be said with practical certainty, reduce the exchange to about 1s. per rupee, and involve the necessity of raising at least Rs. 6,61 lakhs more than would be required by the Government of India to effect, even at the rate of exchange of 1s. 3d. per rupee, a remittance of the amount drawn last year, namely, £16,530,000." The Committee fully recognised the currency evils which India had suffered in the period 1874–93, and the gloomy prospects of the future if the silver standard were retained. On these grounds, therefore, the Committee recommended the closing of the Mints and the adoption of a gold standard as proposed by the Government of India, subject to the modification that the announcement of the closing of the Mints

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to the free coinage of silver should be accompanied by a notice to the effect that although closed to the public the Mints would be used by Government for the coinage of rupees in exchange for gold at a ratio to be fixed, say 1s. 4d. per rupee, and gold would be received at Government treasuries in satisfaction of public dues at the same ratio. Thus the only modification in the Government of India's proposals was the change from 1s. 6d. to 1s. 4d. as the limit to be placed on the gold value of the rupee. The rate of 1s. 4d. was convenient in two ways. It was in the neighbourhood of the average exchange rate of the previous two and a half years. It was a fair average rate, more easily attainable than 1s. 6d., especially in view of the fact that the Committee itself was somewhat uncertain as to the immediate effect on exchange of the closing of the Mints. Secondly, the 1s. 4d. rate assimilated the Indian with the English system, an important factor, as not only was the United Kingdom her best customer, but London was also the central clearing-house of the world. At 16 pence a rupee a sovereign would be the equivalent of fifteen rupees, the rate at which the gold mohur, which was demonetised in 1835, exchanged for rupees. The rupee, moreover, contains sixteen annas, and one penny was thus the equivalent of one anna.

The necessary legislation to close the Mints was passed at a meeting of the Legislative Council at Simla on June 26, 1893. Act VIII. of 1893 provided for the closing of the Indian Mints to the free coinage of silver, Government retaining power to coin silver on their own account. Three notifications were issued on the same date, one that gold coins and gold bullion would be received at the Mints in exchange for rupees at

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the rate of 7·53344 grains troy of fine gold for one rupee (*i.e.* 1s. 4d. per rupee); the second that sovereigns and half-sovereigns would be received in payment of sums due to Government at the equivalent of fifteen rupees and of seven rupees eight annas respectively; the third provision for the issue of currency notes in exchange for British coin or gold bullion at the rate of 7·53344 grains troy of fine gold per rupee, sovereigns and half-sovereigns of current weight being taken at the rate of fifteen rupees and of seven rupees and eight annas respectively. It will be noted that the making of sovereigns and half-sovereigns legal tender and the fixing of a permanent rate of exchange between gold and the rupee were to be provided for by future legislation. No action was taken with regard to Lord Farrer and Lord Welby's joint recommendation that "the Government of India should, in view of the ultimate adoption of the whole of their plan, be prepared to secure the convertibility of their token silver currency, and should, with that object, accumulate a sufficient reserve of gold."

As soon as the Mints were closed exchange leaped up from a rate about 14½d. to 16d. It was, however, immediately apparent that the advance was purely speculative and could not be maintained. The rupee currency, owing to the large speculative imports of silver and the correspondingly large issues from the Mints of rupees immediately before and after the closure of the Mints, was sufficient to meet the requirements of the next few years. The imports of silver were even larger than the record imports of 1890–1891. In the eight months July 1893 to February 1894 the imports of silver were 41 million standard ounces, as against 28 million ounces, being the average of the corresponding eight months of the previous five years. Nobody dreamt that in liquidating the favourable balance of trade silver would be imported in this way, and least of all the Secretary of State, who, at the end of a cable to the Viceroy dated July 4, said, "Though silver will no longer compete with bills on India, gold may compete."

Table of Imports and Price of Silver and the Average Rate of Exchange

Year ending March 31.	Net imports of silver into India.	Average price of silver per ounce in pence.*	Average rate of exchange (in pence per rupee).
1.	2.	3.	4.
	Oz. (000)		
1893 . . .	45,524	$39\frac{13}{16}$	14·985
1894 . . .	54,329	$35\frac{5}{8}$	14·546
1895 . . .	27,040	$28\frac{15}{16}$	13·100
1896 . . .	27,018	$29\frac{7}{8}$	13·638
1897 . . .	25,929	$30\frac{3}{4}$	14·450
1898 . . .	44,285	$27\frac{9}{16}$	15·406
1899 . . .	23,165	$26\frac{15}{16}$	15·978
1900 . . .	18,646	$27\frac{7}{16}$	16·067

* The figures in this column relate to the calendar year.

These heavy imports of silver took the place of Council drafts in this period and were, of course, used in the main for jewellery and similar purposes, as the Mints were now closed to the free coinage of silver. The value of the rupee (which weighs a tola) was after the closing of the Mints worth more than a tola of uncoined silver, and the man in the street was unable to see that it was not necessarily a profitable transaction to buy a tola of silver for 15 annas in what was practically a falling market. This occurred at a time when the Secretary of State unfortunately suspended his Council sales, and this

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stimulated the purchase of silver. The closing of the Mints was launched under two inauspicious events—the unfortunate curtailment in the sale of Council drafts and the large fall in the gold price of silver.

In some quarters the closing of the Mints to the unlimited coinage of silver was thought to be sufficient to raise the exchange immediately to 1s. 4d. per rupee and to "peg" it there. The Herschell Committee and the Financial Member of Council both emphasised the uncertainty as to the immediate effect of the closing of the Mints. "It may be," said Sir David Barbour when introducing the Bill, "that the gold standard can be made effective from the first, although it will not be secured until there is a considerable amount of gold in our treasuries and banks. Or it may be that the making of the gold standard effective will involve a long and arduous struggle, and necessitate heavy sacrifices." There were protests to Government when the Secretary of State sold his bills below 16d., and the Government of India telegraphed on June 30, 1893, that apprehension and uneasiness had been caused in commercial circles by the sales at a lower rate than 1s. 4d. the rupee. In that telegram it was suggested that if it was inexpedient to fix a minimum, a moderate amount only should be offered weekly, extra allotments being refused altogether or granted only on such terms as would make their cost equivalent to what would be incurred by exporting gold to be exchanged for rupees at the Indian Mints. The Secretary of State rightly held it to be inexpedient to fix a minimum rate for exchange, and proposed reducing drawings while still meeting Home Treasury requirements. In August the Bombay Chamber of

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Commerce deprecated the sale of bills at 1s. $3\frac{1}{4}$d. per rupee as "the sale has shaken confidence in the power of Government to effect the object of recent currency legislation, and, in the opinion of the Committee, has been made at an inopportune moment, before the Indian export season has opened, and therefore before Government's policy has had a fair trial." The President of the Indian Currency Association, the secretary of the Bank of Bengal, and others brought to the notice of Government the feeling in commercial circles. Government informed the Secretary of State, and on August 25 pointed out that the existing uncertainty caused the mercantile community heavy loss, hampered trade, and thereby reduced the demand for Council drafts. The Secretary of State did curtail his sales. His sales from July to December 1893 were only £746,000, as compared with £6,335,000 in the corresponding period of the previous three years. On January 20, 1894 a forced value for Councils was abandoned, and on January 31 a considerable allotment of drafts took place at 14·375d. The lesson of this was that it is impossible to force exchange to a level that is not justified by market conditions. The Secretary of State should, in other words, sell freely when the demand is great and *vice versa*. These small sales were accompanied by considerable uneasiness, especially in the export trade, a large accumulation of treasury balances—the treasury balances on January 31, 1894 were R. 23,80 lakhs, or 81 per cent higher than the average of the five previous years,—and also by a considerable import of silver, as we have seen above. The following table shows the monthly rate of exchange and the Secre-

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tary of State's drawings from June 1893 to April 1894:

	Secretary of State's drawings £(000).	Rate of exchange. (Pence per rupee.)
June 1893	2,478	15·039
July 1893	25	15·974
August 1893 . . .	78	15·243
September 1893 . . .	7	15·350
October 1893 . . .	5	15·334
November 1893 . . .	617	15·251
December 1893 . . .	14	15·242
January 1894 . . .	98	14·408
February 1894 . . .	1,023	13·787
March 1894 . . .	1,915	13·870
April 1894	1,368	13·626

The tumble in the price of silver at the closing of the Mints was the second of the two inauspicious events referred to above. The fall in silver was no less than 8¼d. in June 1893. On June 24, when rumours of the closing of the Mints took place, silver was in London 37½d., on the 26th, 36d., and on the last day of that month it fell to 30½d. In the United States there was a considerable opinion against the Sherman Act, the repeal of which had always been anticipated by the Government of India. A special session of Congress took place on August 7, and the purchase clause of that Act was repealed after lengthy discussion on November 1, 1893. This was anticipated by the Government of India and it was one of the most important factors that led to the closing of the Indian Mints. In the month in which the Mints were closed there was widespread panic in the United States, and there was the same apprehension felt there as here. We asked ourselves what would happen to silver if the Sherman Act was suspended

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and no less than 37 per cent of the world's annual production were dumped on the market, and the United States asked themselves what would happen if India ceased importing silver as she had been doing, having imported 33 per cent of the world's production during the years the Sherman Act was in force.

(2) *The Stimulus of a Falling Exchange*

During this period there was a belief that the fall in exchange stimulated exports from India and was beneficial to the country as a whole. Exporters were asked to give evidence on this, and asserted from practical experience that they obtained an increasing number of rupees against given quantities of their exports. No one disputes that if an exporter sells goods in a foreign market and the price be taken as fixed, a fall in the value of his own currency as compared with that of the country in which he sells, increases his currency receipts by the equivalent of the depreciation in his own currency relatively to that of the foreign country, and may, often does, increase his profits even in a larger proportion. There is nothing new about that. It is simply a question of common sense and ordinary arithmetic. But the theory of a stimulus to trade by a falling exchange during this period was widely held in India, and the Japanese Commission of 1896 and the Mexican Commission of 1903 on monetary matters both held that a falling exchange stimulates exports in silver standard countries. There was in this period a danger of the theory passing into a "catchword," and becoming one of what Bacon called the "idols of the market-place." It is clear that muddling was at the top of its form in regard to it. Professor Kemmerer in his interesting book on *Modern Currency Reforms* quoted the report of the British Consul-General at Hakodate, Japan, which shows that a fall of exchange is not necessarily a good thing for trade between countries. Like many other stimulants it is irregular, and in this case checked imports. In 1892 Hakodate imported 1500 tons of water-pipes at 4 guineas a ton or (at the rate of exchange) 28 silver dollars. In 1894 Hakodate again advertised for 1500 tons to complete her water-supply system. The same firm tendered at £4 per ton, but exchange had fallen so much that it required 40 dollars to buy four sovereigns. In these circumstances Hakodate refused all tenders, erected her own works, and when last heard from was exporting pipes to China and to India. Professor Kemmerer also points out, in dealing with the Mexican Currency Reform, 1903–8, that the argument in favour of a continuance of the silver standard in Mexico because of the encouragement to the export trade from a decline in the gold value of silver was weaker for Mexico than for most countries, because approximately half of Mexico's exports consisted of depreciating silver, and secondly because Mexico was largely dependent on foreign countries for supplies of mining machinery, chemicals such as quicksilver, and railway materials, whose peso cost was greatly increased by the decline in silver. The untenable delusion of a falling exchange being beneficial to trade may be partially exposed by asking the question as to what are the ultimate limits of a beneficial fall. The Fowler Committee failed to discover at what precise point, if at all, the advocates of this view would say

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that the alleged advantage ceased. The Financial Member of Council in introducing the Financial Statement for 1891–92 said: "Things are not always as they seem to be, and though we can all see the sun rise in the east and set in the west, we do not in the present day believe that the sun revolves round the earth once in every period of twenty-four hours. Trade between different countries is essentially a barter of goods for goods, and its extent and nature are determined, in the long run, not by the standard of value in use in either country, but by the comparative cost of production of commodities in these countries. . . . That trade between different countries ebbs and flows in accordance with the fluctuations in exchange is a fact which falls within our daily experience, and is wholly in accordance with theory, but I have yet to learn that the total quantity of water discharged into the sea by a river is dependent on the tides at its mouth, and that the greater the strength of the tides the larger the total average volume of discharge. The current may run into greater velocity when the tide is falling, but the additional volume of water poured into the sea is only the same as the volume which was forced back when the tide flowed the other way." In short, it is the comparative cost in production that affects the trade between countries, *i.e.* the relative cost of producing commodities in one country as compared with the relative cost of producing the same commodities in another country. This is often forgotten, especially at the present time when the possibilities of a further rise in exchange are discussed. Our jute and tea industries depend not on the relative value of the rupee to the sovereign, but on the fact that our

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customers cannot produce jute and tea as we can, and they require these commodities, and are willing to give piece-goods and iron and steel in exchange for them. Any change in the relative value of the rupee to the sovereign does not in the long run weaken their demand or reduce the amount of goods which they are prepared to give in exchange, and, therefore, it does not affect the production of these articles in India. By a falling exchange in this period India did not, all things considered, gain in its international trade, since the extra price received for its exports was balanced by the extra price paid for its imports.[1]

As will be seen from the following summary table, silver prices of exports increased in greater proportion than their gold prices, while the gold price of

INDIAN PRICES, 1890–1900

Index numbers (average of the figures for the five years ending 1894 being taken as 100).

	1890.	1891.	1892.	1893.	1894.	1895.	1896.*	1897.*	1898.	1899.	1900.*
Exports—											
Silver prices	97	96	101	104	102	103	109	115	95	93	115
Gold prices	113	104	98	98	86	91	102	114	98	96	119
Imports—											
Silver prices	105	97	97	103	97	101	109	100	93	101	111
Gold prices †	123	105	94	97	82	89	102	99	96	105	114
General average—											
Silver prices	99	97	101	104	101	103	108	111	95	95	114
Gold prices	116	105	98	98	85	91	101	110	98	99	118
General average of wages in India ‡	98	99	100	101	102	105	108	110	112	115	119
Rate of exchange §	117	108	97	94	84	88	93	99	103	104	103
Price of silver in London	121	114	101	90	73	76	78	70	68	70	72

* Exceptional years on account of famine following a deficient monsoon.
† All commodities, 39 articles (Department of Statistics Index Number).
‡ Report on the enquiry into the Rise of Prices in India published by the Superintendent, Government Printing, Calcutta.
§ Finance and Revenue Accounts (Government of India).

[1] (1) Herschell Committee Report, para. 27 (C. 7060, 1893). (2) Dr. Alfred Marshall's evidence before the Fowler Committee (see Q. 11,792, 1899). (3) Barbour, *The Standard of Value*, chapter xv.

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the rupee declined. Wages and other expenses of production rose steadily, as did silver prices of exports. Exporters and producers, therefore, received on the whole increasing rupee prices.

It is a steady exchange that a country requires and not a fluctuating exchange which leads, especially in regard to future contracts, to much uncertainty, gambling, and depression of longer or shorter duration. During the period 1874 to 1893, for example, when the question of the exchange value of the rupee was the one financial question dominating all others in India, the uncertainty as to the course of exchange from day to day, week to week, and month to month, made it impossible to put through a business transaction without either accepting a peculiar risk or insuring against it. From the point of view of the Government of India an uncertain fluctuation in exchange had two serious disadvantages. It led to additional taxation to meet an uncertain fall in exchange. It also made the framing of a budget impossible, if accuracy in forecasting is to be taken as the criterion of budget-making. At the best of times this is never an easy task in India, for we have to contend with the unknown factor of the year's monsoon.

(3) *The Rise in Rupee Exchange*

Exchange depends on trade conditions, on the relation between our exports and our imports. That is a platitude. It must not, however, be forgotten that the volume of currency as influencing rupee prices is an important factor. The relation, on the one hand, between the volume of the currency offering

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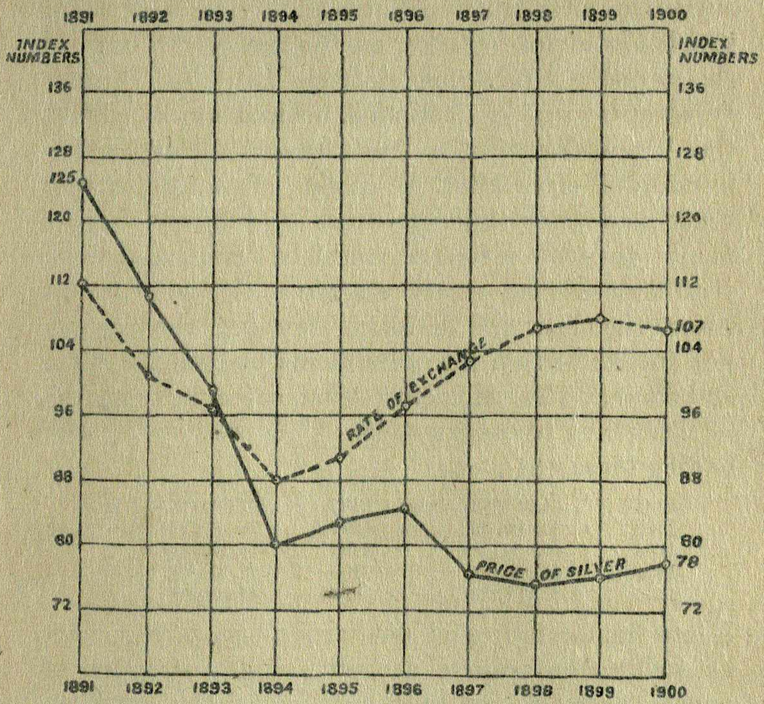
in the markets, and, on the other hand, the work that the currency has to do, is very important, not only in regard to rupee prices in the country itself, but as regards exchange through the influence of rupee prices on exchange. The volume of currency, in other words, as influencing rupee prices was an important factor in exchange during this period. The question arises then in reviewing the currency policy of the period whether there was a comparative decrease in the volume of the currency as compared with the number of transactions. Was there not merely an actual decrease but a relative decrease as compared with the beginning of this period ? Did the law of supply and demand apply to currency in this period ? Did the monetary demand increase more rapidly than the supply ? The Government of India in their despatch dated March 3, 1898, which led to the appointment of the Fowler Committee, said that their experience since 1893 had undoubtedly proved that a contraction in the volume of the rupee currency, with reference to the demands of trade, had the direct effect of raising its exchangeable value in relation to gold.

After the closing of the Mints, exchange advanced from a rate of about 14½d. to 16d., a speculative rate, as we have seen, that could not be maintained. The exchange value was much less than 16d. and the rate fell. In 1894 it continued to fall, but in 1895 steadily recovered until it reached 16d. in 1898. The chart below brings out the movement in exchange during this period.

DIAGRAM OF THE COURSE OF EXCHANGE ON BILLS DRAWN BY THE SECRETARY OF STATE FOR INDIA AND THE PRICE OF SILVER IN LONDON IN EACH YEAR FROM 1891 TO 1900.



The data of the chart are :-
Price of Silver on 26 June 1893 . . . . 36 d taken as 100.
Rate of Exchange on the 3rd week of June 1893 14·906 d taken as 100.

The chart is based on the following data :

	1893.	1894.	1895.	1896.	1897.	1898.	1899.	1900.
Average rate of exchange .	14·546	13·100	13·638	14·450	15·406	15·978	16·067	15·973
Price of silver (pence per standard oz.)	35⅝	28 15/16	27⅞	30¾	27 9/16	26 15/16	27 7/16	28¼

Immediately after June 1893 there was a considerable absorption of rupees, and, as Sir Clinton

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Dawkins later pointed out in 1900, it is not rash to assume that at the closing of the Mints the silver currency was redundant. It is an important question which has a close bearing on the rise of exchange in this period. A predecessor of ours, Mr. J. E. O'Conor, Director-General of Statistics, pointed out in one of the Annual Reviews of Trade that if the fall in the imports of silver after the closing of the Mints were taken as not very much in excess of ordinary requirements, then the inference might be drawn that more than half of the yearly additions to the currency before the closing of the Mints went into the melting-pot for conversion into ornaments or into the earth as hoards. The net imports (imports *minus* exports) of silver tend to confirm this. These were in the year ending March 31:

1891	51,000,000 ounces.	1896	27,000,000 ounces.
1892	32,000,000 „	1897	26,000,000 „
1893	46,000,000 „	1898	44,000,000 „
1894	54,000,000 „	1899	23,000,000 „
1895	27,000,000 „	1900	19,000,000 „

These figures represent net imports on Government as well as on private account. The absorption of rupees decreased when the value of the rupee in exchange was above its content value as is illustrated by the following data:

(In crores of tolas.) *

Year ended March 31.	Absorption of rupees.	Bullion.	Total.
1894	10	11	21
1895	5	8	13
1896	2	8	10
1897	6	8	14
1898	−1	13	12
1899	3	8	11
1900	1	5	6 †

* A tola, the weight of a rupee, 180 grains, is the equivalent of ⅜ oz. The details of this table are given on page 142 of the Prices Enquiry Committee's Report, volume i., Superintendent, Government Printing, India, Calcutta. † Famine year.

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Government added, it will be remembered, to the currency by taking over from the banks a considerable stock of silver held or in transit at the time of the closing of the Mints which, when coined, amounted to nearly two crores of rupees. In 1896 the maximum of the invested portion of the Paper Currency Reserve was reached. While there were additions to the currency there was less coinage than hitherto, especially between 1895 and 1899. From the figures of coinage it may be argued that even allowing for the reappearance of rupees from hoards after 1893 (which did not occur except in 1898) there would appear to be a distinct contraction in the circulation. The coinage of rupees was :

COINAGE OF RUPEES *
(In lakhs of rupees.)

Year ended March 31.		New coinage.	Re-coinage.	Net coinage.	Coinage per capita.		
					Rs.	A.	P.
Decennial average,	1876–1885	6,49	25	6,24	0	4	1
Do.	1886–1895	7,79	26	7,53	0	4	4
Do.	1892	5,55	19	5,36	0	3	1
Do.	1893	12,69	18	12,51	0	7	1
Do.	1894	4,81	20	4,61	0	2	8
Do.	1895	9	6	3	0	0	1
Do.	1896	29	29	..	0	0	2
Do.	1897	57	64	–7	0	0	4
Do.	1898	99	61	38	0	0	7
Do.	1899	70	33	37	0	0	5
Do.	1900	223	91	132	0	1	3

* See Table No. 14. † Includes half rupees and small silver coins.

It is sometimes said in view of this, that as soon as circumstances called for an increased demand for rupees, the net additions being curtailed, the exchange value of the rupee was bound to rise. The data are insufficient to show whether there was in reality a relative contraction of the currency. We have, there-fore, to turn to further statistics.

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In the first place we may turn to prices and also to discount rates. We shall then examine the active rupee circulation of each year and the growth of business in order to see to what extent this contraction, if at all, occurred. Apart from a slight rise in 1892–93 prices were steady from 1890 to 1895. In 1896 and 1897 the general price level rose, due entirely to the rise in the prices of food grains and oil-seeds, the result of the failure of the monsoon in several parts of India. In the two succeeding years prices fell greatly on the return of favourable agricultural conditions. In 1899, the year before the famine of 1900, prices were actually between 6 per cent (weighted average) and 9 per cent (unweighted average) below the level of 1893. The index numbers given elsewhere may be briefly summarised :

INDEX NUMBERS OF WHOLESALE (RUPEE) PRICES
(Average of 1890–94=100.)

	Unweighted.	Weighted.
1890	99	94
1891	97	97
1892	101	106
1893	104	104
1894	101	98
1895	103	97
1896	108	106
1897	111	123
1898	95	101
1899	95	98
1900	114	115

The period of this rise in exchange belongs to the first of the two periods into which the history of the Indian price levels divided itself, *i.e.* the period up to 1904 when internal conditions were the principal factors determining prices. In the second period, from 1905

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onwards, Indian price levels enter on a new phase, the causes determining the rise being chiefly world-wide. Owing to the intense famines during 1896, 1897, and 1899 the general movement in prices is so upset as not to warrant definite conclusions regarding the contraction of the currency. Discount rates show a noticeable increase between 1895 and 1899. These rates are the Presidency Bank Rates, *i.e.* the rates charged for demand loans, the rates charged day by day for loans advanced on such security as Government Paper. These rates (which seldom differ among the three Presidency Banks by more than one per cent) afford an index for measuring the supply and demand of money. The published bank rate in India is, as explained in a later portion of this book, not the same as the English Bank rate which is in normal times the official minimum rate at which the Bank of England will discount bills. For loans and advances the Bank of England charges half per cent more than for discounting bills. Sir James Meston in his evidence before the Chamberlain Commission pointed out "that the test of the bank rate ought not to be pressed to the same extent that it is in England, because it means very often a very different thing. A high bank rate may simply be a device of the Presidency Bank in a given area to prevent certain forms of trading, to check over-trading, and to check speculation. We often see that, when the money market in reality is not tight and when you can get local loans, shroffs' loans, as they are commonly called, at rates very much below the official bank rate."[1] The bank rates are influenced largely

[1] Minutes of evidence, Chamberlain Commission on Indian Finance and Currency, volume ii. (Cd. 7237, 1914, Q. 9220).