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FROM PAPERS RELATING TO

THE INTRODUCTION

OF

A GOLD CURRENCY IN INDIA.

CALCUTTA:
OFFICE OF THE SUPERINTENDENT, GOVERNMENT PRINTING, INDIA.
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I.

FINANCIAL DEPARTMENT.

DESPATCH TO THE HON'BLE THE COURT OF DIRECTORS OF THE EAST INDIA COMPANY, No. 36, DATED THE 2ND JULY 1852.

We have decided on bringing to the immediate notice of your Honourable Court the peculiar position of the gold coinage in India.

2. By Act XVII of 1835 of this Government it was enacted that five, ten, fifteen and 30 rupees gold pieces only should be coined in the Indian Mints, and that no gold coin should thenceforward be a legal tender of payment in any of the territories of the East India Company.

3. By a subsequent Proclamation issued on the 13th January 1841, officers in charge of public treasuries were authorized to receive freely the gold coins struck under the provisions of the foregoing Act at their denominated value until they should have passed a certain limit of lightness when they were to be taken as bullion only, by weight.

4. It is not clear what was the precise object in thus engaging to receive coins which were no longer a legal tender of payment. If the market price of gold exceeded the denominated price of the coin in silver, then it was certain that no gold would be received at all, whereas on the other hand if the price of gold fell in the market below the silver denomination of the coin, in that case the Government would be bound to accept payment in a coin that was of no use to it, since it was not a legal tender and could not be re-issued in discharge of public liabilities.

5. The case would have been different had gold been permitted to continue a legal tender equally with silver, for then though the cheaper metal of the two would have had a tendency to displace the dearer as a currency, still though gold were the cheaper, the Government would have been on equal terms with the public, for it could equally have made use of its receipts in gold for re-issue.

6. By adopting the course it did of declaring gold no longer a legal tender and yet undertaking to receive it in liquidation of demands, it laid itself under the disadvantage of being open to be embarrassed with a coin which was of no use and must ordinarily have been paid for above its value since experience has not shown that gold and silver can ever retain so exactly the relative value to each other of 1 to 15 as to circulate indiscriminately as currency without variations of price.

7. This inconvenient result is now forcing itself on our attention, and threatens to become still more serious in consequence of the recent discoveries of gold in New South Wales.

8. The quantity of gold in the Indian Treasuries at present is upwards of 30 lakhs of rupees worth, and the tendency has been gradually, though somewhat slowly, to increase for the last two years. This amount in itself would not have embarrassed us, though obviously there is no advantage in being in

possession of so large an amount of coin of which we can make no use in aid of the public expenditure in India.

9. But we have reason to believe that speculations are already in progress for forming connections with Australia for the express purpose of bringing up gold when the direct line of steam communication is open next year in order to take advantage of the Government Proclamation of 1841 by which gold is still receivable at 15 rupees to the so-called gold piece; and in this case we run the risk of being seriously inconvenienced by an excessive stock of this metal.

10. It is true that gold might be made use of as a remittance to England in liquidation of a portion of the supply annually required for the service of your Hon'ble Court's Home Treasury, but as it might then go, not in adjustment of the balance of trade between the east and the west, but only because it was of no use as coin in India, we apprehend that the possibility of so employing it can form no sufficient argument for continuing to receive what, by the existing law, is not a legal tender of payment in this country.

11. Looking at the question in this light we are of opinion that the Proclamation by which gold is now receivable into the public treasuries at 15 rupees to the Company's gold mohur should be withdrawn, and the existing law enforced that declares gold not to be a legal tender of payment in the territories of the East India Company.

12. Unless therefore we receive your Hon'ble Court's instructions to the contrary in reply to this letter, we shall carry our views into effect, as we consider the public entitled to early notice of a change of practice that must materially interfere with their speculations in gold.

II.

Despatch from the Hon'ble the Court of Directors of the East India Company, No. 52, dated 20th October 1852.

1. In your Despatch in this Department, dated the 2nd July 1852, No. 36, you draw our attention to the position of the Gold Coinage of India.

2. You observe that the effect of the Proclamation* of the 13th January 1841, authorizing officers in charge of Public Treasuries to receive freely, at their denominated values, the gold coins struck under the provisions of Act 17 of 1835, has been and likely to be still more embarrassing to your Government. The extensive discoveries of gold in Australia having had the effect of diminishing its value relatively to silver, holders of gold coin have naturally availed themselves of the opportunity of obtaining at the Government Treasuries a larger price in silver than they could obtain in the market, and gold not being a legal tender of payment, you are unable to re-issue the coins so received in discharge of public liabilities. Hence, under the existing practice the flow of gold coin into the Government Treasuries is certain to increase with the augmentation of the supply and the consequent cheapening of gold bullion, whilst your Government will not find it practicable to make any use thereof in aid of the public expenditure in India.

* Officers in charge of Public Treasuries are hereby authorized freely to receive these gold coins (mohur, half mohur, third mohur, and double mohur) at the rates, until further orders, respectively, denoted by the denomination of the piece, until they shall have passed the limits of lightness allowed for wear laid down in the annexed table, when they will only be receivable as bullion, and be subject to a deduction of one per cent. for seignorage.

3. Under these circumstances it is obviously important at once to check the receipt of gold into the Indian Treasuries, otherwise every kind of speculation in gold will be encouraged to the detriment of the Government. But we have never regarded the Proclamation of the 13th January 1841 as conveying the interpretation which you give to it. It did not appear to us to impose upon the officers in charge of Treasuries an *obligation* to give silver for gold, but only to authorize them to receive gold in exchange for silver if it suited their convenience to do so. In our Despatch in this Department, dated 28th May 1851, we made the following remark with reference to the Proclamation in question—"For the public convenience you may consent to receive them (the gold coins) into your Treasuries, and to exchange silver for them, at fixed rates, but for your security you will decline to continue to receive them at a loss, or, in other words, you will refuse to buy gold above its real value, and thus give an undue profit to the merchant at the expense of the State."

4. From the tenor of your present observations, however, we conclude that you hold a different opinion as to the purport of the Proclamation of 1841, and that so long as it continues in force you consider it binding upon Treasury Officers to receive the gold coins in exchange for silver at their denominated values. In this view, we entirely approve of your intention to give immediate notice of the withdrawal of the Proclamation, but it will still remain for you to consider the important question, whether it be desirable to continue to denominate the gold mohur as equivalent to 15 rupees, when its real value is shewn not to be so great. It may be premature at present,

or until further and more definite experience has been gained of the extent of the new supplies of gold, to adopt a measure which would alter the monetary denominations, yet as every day is forcing the subject into prominence, it is well to be prepared to take measures for adjusting the relative nominal values of the rupee and the gold mohur when you may be able to effect it.

III.

Notification in the Financial Department No. 26, dated the 22nd December 1852.

By Section 9 of Act XVII of 1835 of the Government of India, it was enacted that thenceforward no gold coin should be a legal tender of payment in any of the territories of the East India Company and accordingly gold ceased, from the date of passing of the Act, to be a legal tender of payment in the Company's territories in India.

But by a proclamation issued on the 13th January 1841 officers in charge of public treasuries were authorised freely to receive gold coins struck in conformity with the revisions of the Act XVII of 1835 at the rates indicated by the denomination of the pieces, until they should have passed certain limits of lightness set forth in a table published with the proclamation, or until further orders and gold coins have been thus received in liquidation of public demands up to the present time.

Notice is now given that so much of the proclamation of the 13th January 1841 as authorised the receipt of gold coins into the public treasuries of Government will be withdrawn and cancelled from the 1st January 1853, and that on and after that date no gold coin will be received on account of payments due or in any way to be made to the Government in any public treasuries within the territories of the East India Company.

Gold will continue as heretofore to be received into any of the Mints within the countries of the East India Company for coinage under the Act and rules at present in force for the coinage of gold, but Mint certificates for gold coins will be discharged in gold only, and no such certificate for gold will be accepted in any public treasury in liquidation of public demands or on account of any payment to the Government whatever.

IV.

MINUTE, DATED 25TH DECEMBER 1859, BY THE HONOURABLE MR. JAMES WILSON ON THE PROPOSAL TO INTRODUCE A GOLD CURRENCY IN INDIA.

In the Financial Despatch No. 109, dated the 4th of November 1859, from the Secretary of State, upon the subject of a Paper Currency for India, the consideration of the Indian Government is invited to the question which has recently been much discussed, of introducing the English "Sovereigns" or some other gold coin into the circulation of India, as being one intimately connected with that of a Paper Currency.

2. The discoveries of gold of late years, and its diminishing price in relation to silver, added to the great demand which has latterly existed, for the latter metal for shipment from England to India and China, have combined to create a strong public feeling in favour of making use of gold in some form or other as part of the circulating medium of India.

3. No one will be inclined to deny that if we had to begin a system of currency *de novo*, the most convenient of all the various systems now in practice would be found to be that used in England, where gold is the standard, gold coin the general money in circulation, and silver tokens of limited tender, the subordinate coins.

4. But we have to deal with a long-established standard of silver in India, in which liabilities to a large amount, in the shape of public debt, and obligations of varied character running over a long series of years, have been incurred in silver. For it must be borne in mind that a contract to pay a given sum of money, is nothing more nor less than a contract to deliver a given weight of that metal which is the standard at the time the contract is made, and that to alter or vary the standard, and to adopt another metal because it is cheaper, is simply to enable the debtor to break faith with the creditor. It is true that the metal in which a debt has been contracted may fall in value by a large increase in its quantity, but that is a risk which the creditor runs, and of which he has no right to complain; in like manner the metal may rise in value, but that is a risk which the debtor incurs when he enters into the transaction and of which therefore *he* has no right to complain. If two men enter into a contract, one to deliver, and one to receive a given quantity of wheat, at a distant day, however much wheat may have fallen in price in the meantime, the receiver has no right to complain any more than the deliverer would have, had it in the meantime risen as much in price. But if the person whose duty it was to deliver wheat, finding that it had risen much in price since the contract was made, sought to deliver barley or some other grain, which in the meantime had become relatively cheaper, the injustice of such an attempt would be plain. But it would be equally unjust after a contract had been made in a silver standard, to change the standard into gold, because it was becoming more plentiful, and in relation to silver, likely to become cheaper.

5. Since the first discovery of California this subject has been much forced into discussion owing to the various ways in which a great and sudden increase in the supply of gold was likely to affect various countries. The first impression was that a great fall would take place in the price of gold as measured in silver. Up to this time, however, the change in the relative value

of these two metals does not at the outside exceed 5 per cent. Before the gold discoveries silver was rarely so low as 4*s.* 11*d.* the oz. ;—since, it has seldom reached or at least exceeded 5*s.* 2*d.* the oz. But under the apprehension of a fall the Government of Holland, proverbial for its caution, was the first to take alarm, and having then a circulation of both gold coins and silver coins, which were a legal tender at a fixed relation to each other, they demonetised the gold coin, leaving silver, the ancient standard the only legal tender.

6. In Belgium a similar state of things existed. Their standard and chief coins were silver, but they had, chiefly for the convenience of travellers, attached a fixed rate to the gold coins of England and France, and had coined 20 franc pieces of their own. They followed the example of Holland, demonetised gold and fell back upon the single silver standard and coin.

7. In India coins both of gold and silver were in partial circulation. The mint proportion which those coins bore to each other was that of 15·153 of fine silver to 1 of gold. The gold coin was not however a legal tender, but as the intrinsic value of the gold coin in the market was at least equal to the silver rupees which it represented, there was no difficulty in passing them, and the Government accepted them in the public treasuries at the nominal rate at which they were coined. But as soon as the price of gold began to fall, and the gold mohur piece was no longer of the same value as 15 silver rupees, it was evident if the Government continued to receive them into the treasuries without the power of paying them out at the same rate, that a great accumulation of gold pieces would have taken place, which the Government could not use as money, and upon which in the sale it must have lost considerably. To avoid this, the Government had the choice of two plans, the one to reduce proportionately the rate at which the gold coins would be received so as still to leave a margin for loss, the other to prohibit the receipt of gold coins altogether and to accept only the legal tender coins of silver. They adopted the latter.

8. In the United States at that time they had a double standard of gold and silver, and coins of each metal. But as silver became dearer in proportion to gold, it was shipped away to so great an extent as to lead to great inconvenience for the want of small coins, the place of which could not be supplied with gold. In 1853 therefore the American Government had recourse to the plan of reducing the weight of the silver coins (the dollar being reduced from 412½ grains to 384 grains of silver), so as to make them tokens like the English silver coins, limiting their tender to five dollars, and thus adopting a single standard of gold.

9. In France a double standard had prevailed at least since the decree of Napoleon the First in 1801. By that decree the relative value of gold and silver was fixed in the proportion of 1 to 15½, but as 6 francs are retained at the Mint for coining a kilogramme of gold into 155 pieces of 20 francs each and 1½ francs are retained for coining a kilogramme of silver into 40 pieces of five francs each, the proportionate value of the two metals as coined is 1 of gold to 15·54, rather above 15½, of silver.

10. From 1801 to 1850 the market price of gold had always a tendency to rise, and being more valuable in proportion to silver than the rate fixed by the Decree of Napoleon disappeared altogether from circulation and commanded a premium; silver consequently became the only actual circulation. Since the gold discoveries, the price of gold has fallen somewhat below the fixed rates, and in consequence, since 1850 a sum equal to *one hundred and*

thirty millions sterling of gold has been coined at the French mint, and a corresponding amount of silver has been exported. For many years prior to 1850 little or no gold had been coined. This has led to a daily increasing scarcity of small coin and to great inconvenience as a consequence. And it is quite certain if the price of silver continues to rise, that the French Government must resort to some such plan as has already been adopted in the United States in order to maintain in circulation silver coins for inferior denominations. Indeed it is chiefly the fact that a large portion of the silver coin now in circulation in France has become considerably reduced below their full value by wear that has prevented their being exported.

11. In all the German States in which formerly gold coin circulated at fixed rates they have been demonetized, and under a Convention made in 1857 to which I shall have further to allude hereafter, silver has been reverted to as the sole standard.

12. From these examples it would appear that wherever the integrity of the single standard had been in any degree departed from, the small change in the relative prices of the metals which has taken place, not exceeding as I have shown, 5 per cent., has immediately led to inconvenience and to an alteration in practice which in the matter of the money of a country is always to be deprecated. In England fortunately the single standard has not been tampered with, and it is accordingly almost the only country in which no change whatever has been made in consequence of the gold discoveries. No doubt there were at first not wanting those who being owners of the public stocks, or recipients of fixed incomes, endeavoured to create a feeling in favour of some change in order to avoid the depreciation in their property which they apprehended from the reduced value of gold. But they were at once reminded that all contracts were made in gold, and that whether gold rose or fell in value the contract as between debtor and creditor must be maintained.

13. With all this experience before us we are called upon to consider how far it would be wise again to tamper with the principle of a single standard in India by admitting gold coins into the circulation under some assumed regulation which would avoid inconvenience.

14. I at once say that I know of no conceivable regulations by which such an object could honestly be attained. But I am willing to consider all the various proposals which have been made for that purpose. These may be divided into five heads. *First*, some propose that the "sovereign" or some other gold coin should be introduced, and which should circulate at its market price from day to day measured in silver. *Second*, others propose that such a gold coin should be made bearing the exact value of a given number of rupees, say ten, and that it should be made a legal tender for that sum for a limited period, say a year, when it should be re-adjusted and again valued and made a legal tender for a further similar period at the new rate. *Third*, some propose that the English sovereign should be introduced as a legal tender for *ten rupees*, but limited in amount to twenty rupees, or two sovereigns. *Fourth*, some propose to preserve a single standard, but to change it from silver to gold, adopting silver tokens for subordinate coins. *Fifth*, some propose the simple adoption of a double standard of silver and gold which all the others repudiate.

15. As applicable to most of these schemes, I may remark that the chief object of a coin is that it shall represent a defined and fixed value, well known to the simplest of the people. When it is deprived of this quality

it is reduced to the mere condition of a commodity which is to be bought and sold at rates varying with the fluctuations of the market. The true attribute of the coin is thus gone.

16. This remark applies with great force to the first mentioned of the four plans for supplementing the Indian currency with gold coin. And if we consider what the practical effect would be, the proposal must be dismissed as wholly impracticable. Let a gold piece be coined to-day representing the exact value in gold of ten rupees, to-morrow the price of gold either from a change in its intrinsic value or from an alteration in the exchanges with England where it is the sole standard, rises to 10 rupees and four annas, next day it rises to 10 rupees and eight annas, in a day or two more an importation having taken place from Australia it falls to 9 rupees 12 annas, and then to 9 rupees 8 annas, and so on, being influenced by all the accidents from day to day which determine the price of gold expressed in silver.

17. These fluctuations moreover may not only take place from day to day, but even during the same day. It would be impossible that such coins could answer the place of money. The cambists and money dealers could no doubt buy and sell and deal in such coins just as they do now in the metal itself, but except the fact that the quantity and quality of the metal would be ascertained without weighing or assaying, they could just as easily deal in and buy and sell gold bars. To call a coin "money" the value of which could not be vouched for from one day to another, to say nothing of the trouble of ascertaining and computing the fluctuations, would be a mere misnomer, and it is certain that no community would suffer the risk and inconvenience of such a system that could possibly avoid it.

18. The second plan proposed, though not open to the same objections, is still open to others almost as grave. A gold coin is to be made the exact value of 10 rupees, it is by law to be declared a legal tender for that sum for a year or some specific period of time, both in the hands of the Government and the public. During that period the price of gold measured in silver is continually falling, a profit is gained by the bullion dealers by importing gold, getting it coined, and forcing it into circulation at the fixed periodical rate. As the year draws to a close, when it is known that the rate will be revised, and the circulating value of the coin reduced in conformity with the fall of gold, every one makes an effort to get rid of the gold coin, a struggle takes place in which the public Exchequer takes a prominent part, for every one to divest himself of gold coins and thus to avoid an inevitable loss. But on some one it must fall, and there could not but be great dissatisfaction in the public to find on a given day the value of a large quantity of the coin in its possession which they had no choice to refuse, depreciated by 2, 3 or 4 per cent.

19. When the monetary convention was entered into between the Austrian Government and the states of the Zolverein in 1857, with a view to obtain a uniform and general currency, silver was adopted as the existing standard, but as some States were anxious to retain a right of coining gold, after the greatest consideration no better plan could be devised than this most imperfect one. But the difficulty of giving a fixed value was found to be so great that Article XVIII of the Treaty declares that—

"The silver value of the conventional gold coins will be alone regulated by the relation of the supply to the demand, and they will therefore not possess the property of representing an amount of legal silver coinage as a medium of payment."

But it is further provided by Article XXI—

"That each State is to be at liberty to allow such gold coins to be taken at their treasuries in lieu of silver at a rate of exchange to be beforehand decided upon, such predecided rate of exchange shall last at the utmost six months, and at the close of the last month, is to be each time re-considered for the next similar period."

20. As far as I can learn and as might have been expected, a system of gold currency so imperfect and exposed to such uncertainty has practically remained a dead letter. To show the opinion which the parties to the convention entertained of the plan, they took care in Article XXII to stipulate that all paper money issued by the State should be solely for silver and payable in that metal. I may conclude then that it would not be thought desirable to adopt this plan.

21. The next and third proposal is to permit the circulation of the sovereign to a limited amount, say of *twenty rupees*. This idea seems to have originated in the system adopted in England of giving to the silver coins the character of tokens, not of full value and limiting the amount of tender. But it must be borne in mind that while this can be done with the low priced metal which represents small transactions, it cannot be done with the high priced metal, the chief object of which is to represent large payments. The objections to the plan may be thus stated. As long as gold was of a value above the ratio which the coin represented, it would not be circulated at all, but when it fell below that value, every effort would be made to force it into use. The consequence would be that shop-keepers and small dealers would receive many of their payments in a coin with which they could not make large payments without a loss. They might receive £100 in a day from 50 customers, and when they came to place the £100 in the bank or to use it for a payment to a merchant, they would have to submit to a loss equal to the discount upon the gold. From the mint regulations in England a similar loss cannot happen. A similar source of loss would be experienced by railway companies whose fares would be paid in a coin which they could not dipose of in large sums except at a loss.

22. The fourth proposal is to adhere strictly to a single standard but to change it from silver to gold. As I have already said, I freely admit that if we had to begin *de novo*, convenience would point to a gold standard with silver token coins as the best. Although public opinion has been by no means agreed upon this point, it is curious to observe the fluctuations of views upon this subject and how much they are governed by expediency and convenience at the moment. In 1837 during the panic silver happened to be rather abundant in the London market, and difficult to be converted into bank notes or gold, not being a legal tender. A great pressure from the merchants of London at that time, and again in 1847 under similar circumstances, was made upon the Government of the day to admit silver into circulation, exactly similar to that which now prevails in respect to gold where silver is the standard. I have a very clever pamphlet lying before me entitled "The Injury, Insufficiency and Inconvenience of a Gold Standard," in which arguments are used quite as strong against that system as now prevails against a silver standard. If a Government were to vacillate in a vital matter of this kind according to the convenience or interest either of the debtor class or the creditor class, the integrity of any standard would be entirely lost.

23. But though I admit that a gold standard does possess superior advantages, yet, as I have already shewn, in a country where all obligations

have been contracted to be paid in silver, to make a law by which they could forcibly be paid in anything else, would simply be to defraud the creditor for the advantage of the debtor, and to break public faith.

24. The fifth and last plan proposed is to adopt a double standard, such as prevailed in the United States previous to 1853, and such as still prevails in France. The system of a double standard is practically a permission for the debtor to pay his debts from time to time in the cheapest of the two metals. As I have already remarked, when such a system has existed from ancient times, and when under it the great bulk of obligations have been contracted, the creditor has no right to complain of being paid from time to time in the cheaper of the two metals because that was the condition of his contract. But in cases where a single standard has long prevailed, the adoption of a double standard is just as much a breach of faith as a simple change of the standard. For it must be plain that the introduction of a double standard is practically the adoption of the cheaper of the two metals at the time.

25. But unjust as such a change would be, inconvenient as a double standard has proved in practice, and inconsistent as it is in principle, yet I have no doubt if it is desired to have the use of both metals in a circulation of full value as coin, that it is the best mode in which that object can be attained. In all the other ways in which it has been attempted to circulate gold coin with a silver currency, the principle either of a varying value from day to day, or that of a periodical adjustment of value, the coin circulating in the meantime as a legal tender, has been found needful. Under either of those plans the holders are less or more subjected to immediate and individual loss; in the case of periodical adjustment as is proposed in Germany, it may be, to considerable loss. But in the operation of a double standard, the one coin which is gradually becoming of less intrinsic value, gradually and from day to day, displaces the coin which is undergoing appreciation; large supplies of the cheapening coin come from the mint, and corresponding quantities of the appreciating coin are bought up and exported at a profit; but as long as the two coins circulate together, and to whatever extent they do so, they are, in the hands of the public, of the same nominal value, and continue, without any intermission, to answer the same purpose for all daily uses. However objectionable therefore a double standard may be, and however inconsistent with theory, I hold it to be the least objectionable of all the plans yet proposed for combining the use of the two metals in coins of full intrinsic value circulating in the same currency.

26. But I would ask, what advantage could be expected from the adoption of gold in India. Upon this subject there is, I believe, much confusion of ideas. It is said that gold is becoming more plentiful, and that the demand for silver is making it scarce. Now the extent to which this is true in practice must be measured by the rise which has taken place in the market price of silver, which I have shown does not exceed 5 per cent. But supposing it were greater, would that be a reason for using gold? If India requires a supply of the precious metals it can only be obtained in exchange for its products in foreign markets, and the quantity of those metals, whether of gold or silver, will be obtained in the exact proportion which they bear to the products of India for which they are exchanged. India is quite as well off to receive silver as gold, and perhaps better inasmuch as silver seems to be an appreciating metal, while gold is probably still falling. Nor can it be deemed to be a disadvantage to India that the silver remitted for its

products has to be obtained in exchange for the gold received from California or Australia in London. These different movements in the distribution of the precious metals to the points at which the exchanges of the world direct them, are all determined by general broad principles which are self-acting and which any artificial attempt to disturb or control can only tend to derange.

27. In whatever form India receives its payments from the exterior world for the balance of its exports over its imports, whether in gold or in silver, can matter not, so long as the full value is received.

28. I know it is said that gold coins are much more convenient for circulation than silver. If this refers to the removal of Government treasure from one part of the country to another, then I much doubt if any important advantage would attend gold coins. The expense of removing coin is no doubt in a very small degree determined by its weight and bulk, but to a much greater extent by the necessity of protecting it. It would require just as much of an escort to protect the sum of £100,000 in gold, as if in silver, and perhaps even more so, inasmuch as the compactness and lightness of gold would render it a more tempting and handy prize to the robber, than bulky and weighty silver. Again I doubt much whether there would not be somewhat greater danger to local treasuries containing gold coin than silver. It is a very suggestive fact that during the Mutiny the gold mohurs of 15 rupees commanded such a premium owing to their greater convenience for concealment or removal that the price of 26 and 27 rupees was given for them.

29. But if the convenience referred to alludes to the use of gold coins for private expenditure, then I readily admit their value to that extent. But I would submit that for this purpose, and for all others that have been suggested, a well regulated paper currency, such as I have described in another Minute of this date, would answer much better, while the ancient single standard of the country in which all existing obligations have been contracted would be maintained in all its integrity.

V.

Extract from a Minute by the Hon'ble S. Laing on the Paper Currency Bill.

1. "There is another point of considerable importance, on which I purpose to introduce an amendment.

"The Bill, as now framed, contemplates the absolute and entire exclusion of gold from the circulation of India.

2. "I must confess that I feel very reluctant to base a great measure, for reforming the circulation of India, on the total exclusion, for all time to come, of that form of the precious metal which is indisputably the most convenient for many purposes, and which is the chief or sole standard of all the principal nations of the civilized world, with which we have commercial intercourse.

3. "Surely it is not desirable that the trade of India, with such countries as Australia or the United States, should be for ever taxed with the difference of the cost between sending gold direct here, or sending it first to London, then probably to France or Germany, to exchange for silver, and finally sending that silver to Bombay or Calcutta.

4. "It is universally admitted that, if we could begin *de novo*, the English system of a gold standard, with a silver token currency for small amounts and convertible paper for large payments, would be the most desirable; and, if we cannot at once attain this object, we ought, at least, to approximate to it as nearly as we can, and leave an opening for possible further progress.

5. "I am aware of the arguments urged in Mr. Wilson's able Minute of the 25th December 1859 against any form of a double standard.

"I do not concur with many of these arguments, more especially with the fundamental one, which lays down that it would be a breach of faith, under any circumstances, for the State to pay in gold liabilities contracted in silver.

6. "Several of the principal nations of the civilized world have practically changed their standard, without suspicion or breach of faith: France and the United States, for instance, from silver to gold, Holland and other States, from a double standard of gold and silver to one of silver only; and if this were the only obstacle, I think arrangements would be easy by which the public creditor might have the most ample security for being paid in *money*, represented by coin of not less intrinsic and not less exchangeable value than that which represented money, when the debt was contracted.

7. "But I do not wish to discuss the subject further, for the other practical difficulties of introducing a gold currency, concurrently with the enormous silver currency now in existence, are, if not insuperable, so great, that I should be afraid of delaying the measure indefinitely if I attempted to solve them.

8. "All that I propose is one simple alteration, not at all inconsistent with the principle of the Bill, as it stands, and of a silver standard. It is this:—

"In England, where gold is the sole standard, the Bank is authorized to issue paper, to the extent of not more than one-fourth of its circulation, against silver.

9. "I would reverse the process, and provide that, of the paper circulation of India to be issued against actual coin or bullion, a proportion, not exceeding

one-fourth, might be issued against gold coin or bullion, at rates to be fixed by proclamation, and which might be periodically adjusted with proper notice.

10. "The rate would have to be fixed so as to secure the State from risk of loss in having to convert this gold into silver, in order to meet the notes which had been issued against it; and this would necessitate a low rate at which gold would probably not be taken to the Mint, to exchange for paper under ordinary circumstances. But, on special occasions, and in particular transactions, it might be a great advantage to the mercantile community to know that gold could be made available, as money, at a fixed rate; and I think it not impossible that, with a minimum value thus established at which it could be taken at the Mint, and at Government Treasuries, the superior convenience of gold and its attraction for the Native population, might give it a marketable value, at which it would be largely imported. If, for the sake of illustration, the sovereign were taken at the Mint and principal Treasuries at ten, or the gold mohur at fifteen rupees, it is quite possible that their market value would range up to eleven or sixteen rupees respectively; in which case, without risk to the Treasury, and without disturbance to the silver standard, gold would flow in, a great convenience would have been afforded to international commerce, and to the general public; and a foundation of experience laid upon which, after careful induction, it might be possible to go further in the same direction.

"If, on the other hand, gold did not enter into circulation under these conditions, it would prove that silver, with a secure and convertible paper currency, gave perfect confidence, and answered all the wants of trade and of the community; and the enactment would remain a dead letter, and be perfectly harmless.

"The object would be attained by a short proviso at the end of the 9th Section."

VI.

EXTRACT, PARAS. 21 TO 24, OF A DESPATCH FROM THE SECRETARY OF STATE, NO. 75, DATED 2ND MAY 1861.

21. "I am not insensible to the possible advantage which might arise from the introduction of the sovereign as the current coin of India (as it is, I believe, in Ceylon); but, at the present relative intrinsic value of gold and silver, no combination of Indian coins can express the value of the sovereign. If, by any change in the relative value of the two metals, a sovereign and 10 rupees were to become of equal intrinsic value, the sovereign might readily be introduced, and become the standard coin of India; but at present it can only be taken at its value as gold, and that value will vary from time to time, according to the demand at the moment for that metal.

22. "This value must be determined amongst traders for themselves; and the Government will only embarrass itself, and effect no purpose, by attempting in any way, to vary or alter the ordinary operations of trade.

23. "If gold should ever become the standard of India, the reserve of the Issuing Banks would be held in gold, and not in silver, and in that case all this provision of the Act would have to be changed.

24. "I will not, however, object to the power given by the clause; but I desire that it may be used to a very limited amount, and only in the Presidency towns."

VII.

Extract from a Minute by the Hon'ble S. Laing on Currency and Banking, dated 7th May 1862.

1. "The only remaining point to notice is as to the partial introduction of gold. I have always thought that the step taken by the Indian Government in December 1852, of refusing to accept gold at the Government Treasuries, was a mistake. Gold being the most convenient and portable metal, and becoming more and more every day the currency of nearly the whole civilized world with which India has commercial transactions, it seems to me very undesirable to exclude gold altogether from the ordinary range of its monetary transactions.

2. "Were it possible to create *de novo* a currency for India, there can be little doubt that one similar to that of England would be the best, *viz.*, with a gold standard and gold coins for moderate sums, a silver token currency for small transactions, and notes representing gold for large amounts. But with a silver standard and an immense silver coinage actually existing, the introduction of a gold coinage becomes difficult.

3. "I do not agree with many of the objections which have been urged against the adoption of a double standard, and if the alternative had lain between this and the abandonment of the principle of uniformity, by issuing notes in distinct circles, I should not have hesitated to prefer the double standard.

4. "But this object being attained, there are no doubt difficulties in the way of a double standard, which it is better to avoid, and in fact the adoption of a double standard may be probably looked upon as a transition process to the abandonment of a silver and substitution of a gold standard.

5. "This involved an amount of change which, especially under existing circumstances, when a season of tranquillity and repose in financial and monetary matters is very desirable, I was not prepared to recommend; and accordingly the only provision respecting gold inserted in the Currency Act was one by which the Government were empowered to issue notes to a limited extent, never exceeding one-fourth of the issue represented by coin or bullion, against gold coin or bullion, at rates to be fixed from time to time, and not altered without six months' notice.

6. "The object of this was simply to leave the door open for cautious and tentative experiments with regard to the future use of gold. The importation of gold already exists and is increasing, and the metal is so much appreciated by the Native population as generally to command a premium. It might therefore be a convenience to importers, and an encouragement to increased importation, if it were known that a certain quantity of gold could always be converted into money at a fixed rate, while, if this rate were fixed with a little margin below the ordinary market price, and adjusted, if necessary, every six months, no risk of loss to the Government would be experienced. Thus, after a time, if the use of gold became more general, and its value more fixed, some further step might be taken; but in the meantime the clause would only be acted upon where it was shown that it would be a convenience to commerce, and that the Government would run no appreciable risk. Indeed I should recommend to Government to wait for a year or two's experience of the working of the system just inaugurated before they take any step to put this clause as to gold into operation, unless upon an application from the mercantile community of one of the Presidencies, based upon strong grounds of practical convenience, in which case notes might be issued for gold at a safe rate at the Central Office of Issue of that Presidency."

VIII.

Minute dated 8th March 1864, by His Excellency Lieutenant-General Sir W. Mansfield, K.C.B.

Chapter I.

The Memorial of the Chamber of Commerce should be supported.—Mr. Wilson's opposition to a Gold Currency in India.—Necessity of answering his objections.

The memorial of the Bombay Chamber of Commerce, praying for the introduction of gold currency into India, is, I trust, the beginning of a reform which is much required by the circumstances of the country.

When we consider all that may be said in favour of the reform, and how little can be asserted against it, a reasonable expectation may be entertained, that the prayer of the memorial will not pass unheeded by the Supreme Government and the Right Hon'ble the Secretary of State for India.

It would be difficult to put the facts which tell on the side of the proposed change, more cogently and clearly than has been done in the memorial under consideration. There is, nevertheless, the weight of a great authority in opposition, which must be removed by argument, before we can hope that success will attend the movement of the reformers.

That authority is the opinion of the lamented Mr. Wilson, who died at Calcutta as Financial Member of Council in 1860. This gentleman, distinguished alike as a financial statesman and a great economical writer, rested his objections to such a reform as is now asked for, on three grounds:—

Firstly.—That the change to a gold currency would involve breach of faith with the creditors, who had contracted their obligations in the form of silver.

Secondly.—That it was opposed to much of European precedent and example.

And thirdly.—That seeing that silver was now the legal tender, he could perceive no particular good in change, although he admitted that it would have been an advantage to the country, if gold had been the original legal tender instead of silver.

A careful perusal of Mr. Wilson's minute of 25th December 1859 "on the proposal to introduce a Gold Currency into India," has convinced me that the grounds of his opinion are in point of fact fallacies, which are incompatible with the development of the people, and with a feeling of equity towards all classes, the poor as well as the rich, indebted (in which I include the State) as well as the capitalist and the owner of land.

That minute has convinced me that, while Mr. Wilson allowed his imagination to be excited by the possible depreciation in the value of gold, as the effect of new gold mines might be still more felt, he overlooked the corresponding circumstance, that if, as he expected, gold throughout the world should fall still more in value that it had done when he wrote, silver, if stationary in the amount produced, would proportionally rise. He thus neglected to consider that, as a means of appreciating value, silver was in truth as uncertain as gold, this being true, both with regard to new contracts hereafter to be made and to those of ancient date.

The perusal of his speeches and minutes on Indian Currency, has further persuaded me, that Mr. Wilson's views were formed without sufficient attention to the social condition and the habits of the great masses of the people of India.

He was thus led into error, both with regard to what it is possible to effect in the execution of currency changes and to the wisdom of reforms, to the general entertainment of which the popular mind has not yet been sufficiently educated.

It has appeared to me, therefore, to be a duty for some one to examine Mr. Wilson's minute and his views on the subject of a gold currency for India, according to the principles of Political Economy, of which he has so often been the able and uncompromising exponent.

The necessity of the investigation which, in the public interest, thus seems to me most urgently required, has apparently not occurred to any one else in this country. I proceed, therefore, with much diffidence, to take the duty on myself.

In deference to the great authority to which I find myself opposed, and to the importance of the enquiry, I have been obliged to take nothing for granted, but to follow Mr. Wilson's own example, when in a series of admirable articles he criticised the Bank Act of 1844. In short, at the risk of a charge of tediousness, I have felt it incumbent on me to consider the principles on which rests the idea of a Currency.

These being kept steadily in view, it has been sought to apply them in answer to Mr. Wilson's minute, and in support of the demand which has now come from the Bombay Chamber of Commerce.

Chapter II.

The economy of Gold as a medium of Currency as compared with Silver.—The practical consequence.

A Currency is the machinery of domestic exchange. So much of the medium as is absorbed in the metallic currency of a country is the material of the machinery.

The precious metals absorbed in a currency, are so much of the capital of a country which is devoted by the community to save it from living in a state of barter. The profits of the capital so employed return in the form of convenience, and the saving of labour and time.

The material or metal may be economised by the use of paper in various forms, but it being admitted that paper must always be convertible, it is sufficient to say that the metallic currency is the basis or material of the machinery, by which the operations of modern commerce are rendered possible.

It would seem, then, that when a community determines what shall be its metallic medium of currency, it should carefully consider the conditions of economy which it may present, as compared with other media.

Thus if a given medium, as being of more value, be more portable than another, it is preferable on such an account. Copper is better as a currency medium than iron, silver than copper, gold than silver ; on this ground alone, according to the advance made in a community towards wealth, and in the consequent increase in the number of transactions, to which it daily commits itself. So long as a community is very poor, the rude currency of iron or copper may suffice for its wants. A silver coinage is the indication that the community has passed out of the ranks of poverty.

When it is discovered that even to carry about the increasing masses of silver has become an intolerable labour, for which daily commerce in self-defence must find a substitute, we may be sure that a community has made an immense stride towards the possession, not only of moderate but of great wealth.

It is observed in such circumstances that a more valuable medium of daily exchange should be substituted for the silver, and gold, unless prevented by legal restrictions is sure to advance, to substitute itself for the silver, and to perform the duties hitherto discharged by the displaced silver.

But there are other reasons besides those of more portability, all of which tend directly to a like result. Thus whenever a large quantity of the precious metals is broken up into coins, and is constantly going through a course of circulation, a certain wear and tear or waste of the metal so employed takes place, in other words, an immediate loss of the National Capital.

If a coin of one metal (gold) is equal to ten coins of another metal (silver) assuming that a like degree of purity, hardness, and durability is mechanically given to both, it would seem at first sight that the degree of wastage in both would be exactly proportionate, and therefore that the results of loss to the national capital on this account would be equal. But this is not so for the following reason : the coin of greater value, is not so often turned over in the affairs of petty commerce as that which is of less value, and consequently the former escapes much of the wear and tear which attends the latter.

Again, the coining operations of the Mint, involving assay and manufacture, are reduced in amount, and therefore cheapen coin in an inverse ratio to the value of the coined medium.

Thus if a sovereign be equal to ten rupees in intrinsic value, it is many times cheaper to coin gold for general use, than it is to coin silver. The mechanical economy would be considerable, if it afforded merely a sufficient quantity of coins, for the daily purposes of domestic exchange.

But the reserves of the precious metal established as legal tender must be in great measure coined to meet drafts in accordance with legal demands. Consequently, a larger coinage must inevitably take place than would actually suffice for daily use. This is still more enhanced by the fact of the exportation of coins in the form of a commodity of trade, merely on account of their value as such, and without respect to their being a monetary element in the country they are leaving.

Such considerations are particularly important in India, where so much of the coined medium is retained in private hands, owing to a marked peculiarity of eastern habits. In consequence of this, a vast number of millions of rupees is kept in reserve by the people, on which the minting labour has been expended.