



XXXVII.

NOTE BY MR. T. C. HOPE, DATED 12TH MAY 1881.

1. My note on this subject, dated April 9th, brought our information down to that date and was followed by the telegram to the Secretary of State, sanctioned by the Council on the 13th idem.

2. The information which we have since obtained as to the proceedings of the Conference is almost entirely unofficial, and consists of the following by Reuter's telegrams :—

"*Paris, 19th April.*—The Monetary Conference commenced its sittings to-day. England, France, Germany, the United States, Russia, Austria, Italy, Spain, Portugal, Belgium, Holland, Greece, Denmark, Sweden and the Swiss Confederation were all represented. The French Minister of Finance, who was elected President of the Conference advocated the bimetallic standard."

"*London, 18th April.*—The *Times* publishes a paragraph stating that Sir Louis Mallet will specially represent India at the Metallic Conference in Paris. Canada and England will each send a representative."

"*Paris, 20th April.*—The members of the Monetary Conference have appointed a Committee of fifteen to frame a programme. The Committee will meet on the 23rd instant. A plenary sitting will be fixed later on."

"*Paris, 4th May.*—The Committee of the Metallic Conference has now arranged the draft of the programme; and the Conference will shortly re-assemble."

"*Paris, 5th May.*—At a meeting of the Metallic Conference to-day, England was represented by the Honourable C. W. Fremantle, Deputy Master of the Mint, and India by Sir Louis Mallet and Lord Reay. After an exchange of views, the Conference adjourned."

"*Paris, 6th May.*—At the meeting of the Metallic Conference to-day a divergence of views was manifested by the representatives assembled. Germany will adhere to the gold standard only, but intimated her willingness to suspend her sales of silver for several years, and consented also to withdraw the five-mark gold coin from circulation. England, India, and Canada stated that they only agreed to participate in the Conference in deference to the invitation received. They offered to give information upon the subjects under discussion, but would not vote. Russia, Sweden, the Swiss Confederation and Greece would, under certain reservations, adopt a bimetallic standard. Austria regretted the difficulty of the situation in which she was placed owing to the forced currency existing in that country. The other representatives remained silent."

"*Paris, 7th May.*—At the meeting of the Metallic Conference to-day, the delegate of the Netherlands Government advocated a bimetallic currency; but, on the other hand, the Belgian delegate urged the maintenance of the *statu quo* currency everywhere."

"*Paris, 10th May.*—At a meeting of the Metallic Conference to-day, the Italian delegates spoke on behalf of a bimetallic standard. The delegate of the Swiss Confederation (M. Burckhard Bischoff) dwelt upon the scarcity of gold in the Swiss Confederation. M. Thörner, the Russian delegate, advocated a gold standard."

"*London, 11th May.*—Mr. Gladstone, in reply to a question in the House of Commons last night, said that the action of the Secretary of State for India in sending delegates to the Metallic Conference in no way committed the India Government to anything in the nature of the adoption of a bicurrency. The Secretary of State for India will not encourage any material change in the monetary policy of India, but any measure calculated to promote the re-establishment of the value of silver will be favourably considered."

3. The *London Times* of March 24th publishes a letter from its correspondent at Paris, giving the official text of the draft resolution which France and the United States intend to advocate at the Conference. A summary of the letter, and the text itself, is subjoined :—

"The Paris correspondent of the *Times* gives the following official text of the draft resolution expressing the leading ideas which France and the United States propose to advocate at the Paris Monetary Conference, which is to open on the 19th of April. It is, he says, quite understood that the Powers invited to the Conference are in no way committed either to the terms of the invitation or to any programme, but will be free to recommend



any measure which may improve international monetary relations, nor will any Power be bound to abide by the resolutions which may be adopted by the others :—

"1. Whereas bimetallism, or the monetary system which consists in simultaneously coining any quantity of gold and silver on the footing of a legal ratio between the weight of the monetary unit in gold and the weight of the same unit in silver, had always been practised, and that only since a few years has it ceased to operate in any part of the world ;

"2. Whereas, during nearly a century, the principal continental mints had coined at the legal ratio of $15\frac{1}{2}$ all the quantities of gold and silver presented for coinage, whereby alone, whatever the vicissitudes in the production of gold and the production of silver, the relative value of the two metals was necessarily fixed in the entire world at the par of $15\frac{1}{2}$, nobody in any country agreeing to part with either gold or silver at a less advantageous ratio than that which it was known could be realised in Europe at the mints which were bound at the rate of $15\frac{1}{2}$ to convert into coin having legal currency without limit of amount all the metal they were asked to coin ;

"3. Whereas, by this universal par of value between gold and silver, the monetary material of the entire world formed a single mass as homogeneous as if it had been composed of a single metal, but with this evident and very important superiority, that its paying power was much more stable than would have been the paying power of gold disjoined from silver, or of silver disjoined from gold ; and this because the greater or less stability of that paying power depends on the greater or less regularity of monetary production because the production of gold is very irregular, also that of silver, while the joint production of the two metals valued at the legal ratio, is quite sufficiently regular ;

"4. Whereas the above-mentioned universal par between the value of the two metals was of the greatest service to countries subject to monometallism, such as gold monometallic England and silver monometallic India, which countries, owing to that par, could mutually settle their pecuniary dealings with almost as much facility and certainty as if they had one and the same metal as common money ;

"5. Whereas, as soon as silver was no longer freely admitted to coinage by the States which had previously been bimetallic, the universal par of value between the two metals necessarily disappeared ; and inasmuch as through that disappearance the bimetallic and homogeneous material possessed by the world was decomposed into two monometallic materials heterogeneous to each other—the material gold, the sole metal admitted to free coinage in Europe and America, and the material silver, the sole monetary metal in Asia, a twofold monometallism, which has rendered the commercial and financial relations between the two halves of the world almost as complicated and hazardous as if the exchanges between them were made by barter ;

"6. Whereas, moreover, the States of the Continent of Europe and the United States of America, while admitting gold alone to free coinage, are encumbered with coined silver, and the silver coins of one country cannot be converted into money in other countries unless in Asia, but then undergoing all the loss resulting from the difference between the ratio at which such silver has been coined with regard to gold and the much smaller ratio of gold realised on disposing of silver for an Asiatic destination now that the universal par no longer exists—a ratio which would become smaller and smaller if the offers for sale of silver happened to be resumed and continued ;

"7. Whereas it is, in fact, impossible to withdraw from circulation and get rid of the coined silver, not only because of the terrible fall which the Asiatic exchange would experience and of the enormous losses which would have to be borne, but also because of the immense void such withdrawal would leave behind it—a monetary void which could not be filled either with the present gold, which has already its use, or with the future gold, which has not yet issued from the mines in general and that chaos extremely prejudicial to the interests of all nations, without a single exception, is solely attributable to monetary laws now in force in Europe and the United States, and cannot be put an end to except by reverting to bimetallism ;

"8. And whereas such reversion to bimetallism and the adoption of the ratio $15\frac{1}{2}$ by a preponderating group of nations would have the immediate effect of re-establishing on a very solid basis the old universal par of value between the two metals, of enabling Europe without any loss to employ its old silver crowns in paying America, and reciprocally of enabling the United States, when their balance of trade allows it, to pay Europe with silver from their mines ; and, lastly, of making silver a universal money, while retaining gold on the footing of $15\frac{1}{2}$ as European and American money ;

"Now, therefore, actuated by all these considerations, the American, French, etc., delegates have resolved by common accord to submit to the ratification of their respective Governments the following Convention :—

"Article 1.—The United States of America, the French Republic, etc., form themselves into a Bimetallic Union on the terms and conditions hereinafter stipulated.



"Article 2.—The members of the Union shall admit gold and silver to mintage without any limitation of quantity, and shall adopt the ratio of 1 to 15½ between the weight of pure metal contained in the monetary unit in gold and the weight of pure metal contained in the same unit in silver.

"Article 3.—On condition of this ratio of 1 to 15½ being always observed, each State shall remain free to preserve its monetary types—dollar, franc, pound sterling, mark, or to change them.

"Article 4.—Any person shall be entitled to take any quantity of gold or silver, either in ingots or in foreign coins, to the mints of any member of the Union for the purpose of getting it back in the shape of coin bearing the State mark; the mintage shall be gratuitous to the public; each member of the Union shall bear the expense of its mintage.

"Article 5.—The mints of each State shall be bound to coin the metal brought by the public as speedily as possible and at the aforesaid ratio of 1 to 15½ between gold specie and silver specie; the coin thus manufactured shall be delivered to the person who shall have brought the metal or to his assigns; if the person bringing gold or silver requests immediate payment of the sum which would accrue to him after the interval of mintage, that payment shall be made to him subject to a deduction which shall not exceed two per thousand; the sum shall be handed over at the will of the paying party in gold or silver coin or in notes being legal-tender and convertible at sight into metallic money.

"Article 6.—The gold and silver money shall alike be legal tender to any amount in the State which shall have manufactured them.

"Article 7.—In each State the Government shall continue to issue as a monopoly, its small change or tokens; it shall determine their quantity and quality, and shall fix the amount above which no person shall be bound to receive them in payment.

"Article 8.—The fact of issuing or allowing to be issued paper money, convertible or otherwise, shall not relieve the State issuing it, or allowing it to be issued, from the above-stipulated obligation of keeping its mints always open for the free mintage of the two metals at the ratio of 1 to 15½.

"Article 9.—Gold and silver, whether in ingots or in coin, shall be subject to no customs duty, either on importation or exportation.

"Article 10.—The reception of silver shall commence at the same date in all the mints of the Union.

"Article 11.—The present Convention shall remain in force till the 1st of January 1900. If a year before that date notice of its abrogation has not been given, it shall of full right be prolonged by tacit renewal till the 1st of January 1910, and so on by periods of ten years until such notice of abrogation shall have been given a year prior to the expiration of the current decennial period; it being, however, understood that notice of abrogation given by States having in Europe less than 20 millions of inhabitants, or subject to the inconvertible paper money system, while releasing those States, shall not prevent or interfere with the decennial tacit renewal of the present Convention between the other members of the Union."

This official programme is substantially the same as the sketch given in paragraph 5 of my note of April 9th.

4. Regarding the course of public opinion in England, we find in the latest advices from England facts proving a very decided awakening and advance. The lead of Liverpool, mentioned in paragraph 22 of my note of 9th ultimo, has been followed by Manchester, Glasgow, and an influential body of the merchants of London. The memorials, though not directly advocating bimetallism, evince a strong opinion that existing monetary conditions are unsatisfactory, and a desire that everything, short of establishing that system in England itself, should be done to restore the position of silver in the currency of the world. The following extracts afford a convenient summary of the movement :—

From the London "Times."

"Mr. Slagg, M.P., yesterday placed in the hands of Lord Hartington, the Secretary of State for India, a memorial with 1,700 signatures, including those of nearly all the leading firms in and about Manchester, expressing the strong desire of the memorialists that England, and especially India, should be represented at the approaching Monetary Conference, in order to the restoration of silver to its due place in the monetary systems of the leading Powers."



From the "Times of India."

"Although what has been called the 'taint of bimetallism' has certainly spread widely in the highest quarters in this country, it cannot be said that the prospects of a favourable issue to the Monetary Conference are increasing. The reason is said to be that, while France, the United States, Spain, and Italy have agreed to accept bimetallism at the ratio of 1 to 15½, England has declared that she will be unable to take part in a conference, the conclusions of which have been practically fixed in advance. The meeting of the delegates on Monday will be duly formed, and an adjournment for another fortnight will be arranged. The postponement, we are told, has therefore been decided upon in order to allow France and the United States to enlarge the original programme of the Conference, and so to formulate the questions that it may no longer appear as if the freedom of action of the Conference was prejudiced. If this be the case, it will probably be regarded as increasing the probability that the Conference will not separate without some result. As one of your Brussels contemporaries remarks, 'the endeavour to satisfy the proper technical objection of the British Government to discussing foregone conclusions may be accepted as an expression of an earnest desire on the part of the promoters to settle the questions at issue on as comprehensive a basis as possible, and as being at the same time an indication that hopes are entertained that a solution may be arrived at which will be acceptable to the British representatives.' Meanwhile the British Government are being subjected to extraordinary pressure from the commercial interests. I have already mentioned the presentation of a memorial from Manchester, signed by 1,700 firms, praying that England may be represented at the Conference. On Saturday (April 9) a memorial, signed by a large number of the most influential bankers, merchants, and others in the City of London, was addressed to Lord Hartington, earnestly begging that the interests of this country may be represented, as they 'view with apprehension the effects on commerce generally, and especially on the future of our Indian Empire, arising from the present uncertainty which attaches to the question proposed to be discussed by the Conference, and the further possible depreciation in values which may result from a failure of its settlement.' Among the signatories of this document were the Oriental Bank, the Chartered Mercantile Bank of India, the London and China Bank, the Chartered Bank of India, Australia and China, the Hong-Kong and Shanghai Bank, Dent, Palmer & Company, Anthony Gibbs & Company, the Peninsular and Oriental Steam Navigation Company, Ernsthausen and Oesterley, the Delhi and London Bank, the Borneo Company, Chalmers, Guthrie & Company, Smith, Wood & Company, Anderson, Finlay & Company, Phelps, James & Company, Steel Brothers & Company, Frederick Huth & Company, and Morton, Rose & Company. A memorial signed by 334 of the leading firms of Glasgow and the neighbourhood, estimated to represent a capital of not less than £30,000,000, has also been forwarded to Mr. Gladstone and the Marquis of Hartington, praying that Great Britain may be represented at the Conference. The terms of the memorial are as follows:—

- '(1) We, the undersigned merchants, &c., of Glasgow and its neighbourhood, being subjected, directly and indirectly, to serious losses and inconvenience by the fluctuations of exchange with silver paying countries are materially interested in the International Monetary Conference to be held in Paris in the course of this month.
- '(2) We are very solicitous that Her Majesty's Government should be represented at this Conference convened to consider a question of supreme and universal importance, and so vitally affecting the vast trade of this country with India, China, Japan, the West Indies, Mexico and South America.
- '(3) We view with much anxiety any further disuse of silver as a circulating medium by the nations of Europe, not only because of the serious effect upon exchanges with silver-using countries which must follow, but also in view of the dangerous disturbance certain to result in the value of gold, and consequently in the home and colonial currency.
- '(4) We, therefore, pray that representatives from the Imperial and Indian Governments may be sent to the International Monetary Conference, and that at least they be authorised to give assurances that Her Majesty's Government intend that silver will remain the standard of value in Her Majesty's Indian possessions.'

"Considerable attention has been given to the views published by Mr. Edward Cazalet, a prominent English advocate of bimetallism, who ascribes all the trade adversities of recent years to the growing divergence between the values of silver and gold. Even the misfortunes of the farmers and landowners of this country, which have been commonly attributed



to bad harvests and foreign competition, Mr. Cazalet places side by side with the losses of India and China merchants and of the Indian Government as being largely due 'to the disordered state of the currency of the world.' Mr. Cazalet goes so far as to say that English cotton-spinners are suffering because their French competitors are paying wages in silver, which is depreciated to the extent of 18 per cent. Mr. Cazalet omits to remember that money values in France are as purely on a gold basis as our own, and that consequently the French employer has no advantage over his English rival. M. de Laveleye, formerly a monometallist, has addressed a letter to his colleagues of the Cobden Club, in which he urges that the success of the United States which 'by elevating their customs duties, have created a favourable balance of trade payable in metal' will be a precedent fatal to Free Trade if the struggle for gold is allowed to continue. Germany, he says, advanced her duties because she saw her gold ebbing away. Luzzatti, who usually represents Italy in negotiating treaties of commerce, has not hesitated to declare that Italy will do the same if she sees the gold which she is about to borrow again leaving the country. Russia has already adopted the same measures in order to have the means for resuming a specie circulation by keeping the gold which she produces, and she now exacts payment of her duties in gold. The demands of the French protectionists will become irresistible if the drain of gold from France continues. Finally, Austria has adopted the same policy, and also exacts payment of her duties in gold. 'People will read the excellent works which the Cobden Club distributes by thousands; but the law of Darwin (the law of the struggle for existence) will prevail, and everybody will exclaim—"Rather an advance of the tariffs which is felt by the foreigner than an advance of the rate of discount which is felt at home." It is erroneous, M. de Laveleye contends, to say that the principles of Free Trade lead to the single standard; on the contrary 'the single standard kills Free Trade.' 'America,' he concludes, 'has sent messengers of peace to Europe to initiate union and harmony instead of antagonism. If Europe does not accept the hand which is offered to her, and the economic struggle is allowed to continue, rest assured that it is not America which will succumb.' Lastly, Mr. Seyd has issued a pamphlet in which he undertakes to show 'how England may maintain her gold valuation' and yet give 'support to silver.' This is to be done (so he argues) by simply adding to our coinage a four-shilling piece, which is not to be a token like our other silver coins, but to be as near as possible intrinsically worth that sum."

5. From the telegrams regarding the Conference, though they are rather confused and ill drawn up, we may apparently infer that the matter is not progressing so unfavourably as has been supposed, or as the recent fall in silver seemed to indicate. The old Latin Union of France, Switzerland, Italy, Belgium, and Greece adhere to bimetallism, and they have gained new allies in Holland, the Scandinavian Union, and the United States. Regarding Austria the report is apparently favourable, and as to Russia it is conflicting; but neither one of any practical importance. The declaration of Germany, I take to mean this, that, though adhering in name to her gold standard, she will retain her silver thalers in legal-tender circulation at their present proportion of $15\frac{1}{2}$ to 1 of gold, and will aid silver not only by making no more sales, but by withdrawing her 5-mark gold pieces and letting thalers, or silver pieces of the same value, take their place. This is virtually all that could be wanted or expected of her. She, of course, could not throw her mint open to coin the silver of other people until she had used up the silver she possesses of her own; and this she will do, in keeping up the thalers and other silver coins during the term of years to which reference is made. The most unsatisfactory point in the whole is, that the Indian delegate has, apparently, not made any declaration in the terms of our telegram of the 13th ultimo or otherwise, but has merely "offered to give information."

6. As to the state of matters in England, it is clear that considerable pressure has been put upon the Government from influential quarters, and that they are by no means unaffected by it. Mr. Gladstone's reported utterance two days ago is especially encouraging. He does not go further against bimetallism than to say that the Indian Government are not "committed" to it by the fact that they have sent a delegate. His statement that "the



Secretary of State for India will not encourage any material change in the monetary policy of India" is qualified by the declaration that "any measure calculated to promote the re-establishment of the value of silver will be favourably considered." What is a "material change," and what measures, short of such a change, are alluded to? That no Government could propose bimetallism for England itself is clear; but then, we do not ask that any Government should do so.

7. Under these circumstances, I venture to represent that, possibly, a very material influence towards a favourable settlement might be exercised if the Conference were *at once* informed how far we were prepared to go, and assured that we were friendly, as far as our circumstances would allow. I would suggest the despatch of the following telegram to the Secretary of State :—

"Reuter reports that Indian delegate on 6th instant merely offered information. We think success of Conference and re-establishment of value of silver would be promoted if delegate announced retention by Indian Government of silver coinage, with liberty to add gold hereafter, in terms of our telegram of 11th ultimo, and also intention to coin silver 34-anna pieces here for circulation in India and in London for remittance to East only, together with retention by Bank of England of about five millions silver balance under Peel's Act."

8. The first portion of this telegram merely asks that what the Governor General's Council agreed to on the 13th ultimo may be declared. The second is an adoption of the first, second, fifth, sixth, and seventh of the steps suggested in paragraph 13 of my note of April 9th—that is, of only such part of my proposals as relates to silver, and to its use *in India*. The result will be, first, the facilitation and cheapening of silver remittances to England and the raising and steadying of the exchange, as explained in my fifteenth and twentieth paragraphs; and secondly, the increase of the demand for silver as explained in my paragraph 18. The steps omitted I deem as desirable as ever; but, under the pressure of circumstances, they can stand over at present. The recommendation in this limited form does not, I would point out, involve bimetallism at all, and cannot be termed a "material change in the monetary policy of India." It is merely for the addition of a coin to our silver currency and the providing of it at a place, namely, London, where it is in practice found to be much required. As such, it seems to fall well within the category of measures "calculated to promote the re-establishment of the value of silver," for which Mr. Gladstone promises favourable consideration.



XXXVIII.

NOTE BY THE HONOURABLE SIR E. BARING, DATED 13TH MAY 1881.

I submit a further Note which Mr. Hope has prepared upon the proceedings of the Bimetallic Conference at Paris. This Note shows clearly what is the present state of our knowledge of the proceedings of the Conference. I cannot think that the present state of affairs is satisfactory. We have received officially no information in respect to the course of events in Paris. The last telegram from the Secretary of State, dated the 11th May, informs us that a despatch will leave London to-day communicating the appointment of Sir Louis Mallet and Lord Reay as delegates to the Conference, with their instructions. Until this despatch is received, it is said it will be unnecessary for us to reply to former despatches. The views of the Government of India upon the theory of bimetallism are, for the moment, of less practical importance than the attitude adopted by the Indian delegates at Paris. The main question now is, what attitude those delegates should adopt. It may well be that any final decision must be postponed until the proceedings of the Conference have been reported; but the nature of the report will, of course, largely depend upon the declarations now made by the delegates. It becomes, therefore, very important to decide whether any immediate action is to be taken or not. I have frequently stated that on this subject I consider we should do wisely in adopting an attitude of caution and conservatism. Inasmuch as the main objects we have in view, namely, the rehabilitation of silver and the assurance of stability to the rupee, may be gained without India joining the Bimetallic Conference, I am of opinion that no declaration that we are prepared to join the Union is in any case necessary, even if we were more thoroughly convinced of the theoretical merits of bimetallism than is probably the case. But there appears to me to be a vast difference between adopting an attitude of caution and the purely passive attitude which, so far as I can gather from Reuter's telegrams, is now being adopted by the Indian delegates. The result of the Conference is of vast importance to India. I think we can do more than adopt an attitude of indifference, which can well be construed into one of hostility. We may surely show that, although we may not be prepared to adopt the bimetallic principle, we are, at all events, friendly neutrals, and are prepared to adopt certain measures which will, perhaps, help towards the objects in which we, in common with many other nations, are vitally interested. I can see no possible harm or danger in the declaration being made, which was proposed in our telegram of the 13th April, and I attach special importance to our saying that we reserve to ourselves the right of coining gold later, if we think fit to do so. Such a declaration is tantamount to saying that, although we are not at present prepared to join the Bimetallic Union, at the same time we do not absolutely pin ourselves down to the principle of monometallism, but that we are still open to conviction, and may possibly, at some future period, reconsider our position. I can see no possible harm or danger in this. To adopt any other attitude is to go the length of Mr. Giffen and the extreme monometallists, whose position really amounts to this—that not only are they at present convinced of the unsoundness and impracticability of universal bimetallism, but that they are not open to conviction by the light of future experience. This is not caution, it is prejudice.

It will be seen that Mr. Hope also proposes that we should intimate our willingness to coin 34-anna pieces. I can see no possible objection to this



either. The proposal, as now modified, is not bimetallism. In fact, it may be considered wholly independent of bimetallism or monometallism. It merely amounts to this, that should, by reason of the adoption of the bimetallic principle, the value of gold to silver be restored to the old proportions of 1 to 15½, we shall have a coin in India which represents one-fifth of a sovereign, and will, therefore, be convenient. Moreover, if the English Government will consent to coin a certain number of these pieces at their mint, which shall not be legal-tender in England, but shall be used merely for transmission to the East, a very considerable facility will be afforded to merchants who wish to remit silver to India; for, instead of having to buy up Mexican dollars, etc., and send them to the Indian mints to be coined, they will be able to obtain from the Bank of England a silver coin which, on arrival in India, will at once enter into circulation. If the English Government is really in earnest in wishing to adopt such reasonable measures as, without in any way changing their present currency system, may afford some help to India, I cannot see what objection there can be to the adoption by England of the course proposed. An alteration would be necessary in the Bank Act to this extent, that silver coin and bullion, instead of silver bullion only, might, to a limited extent, say five millions, be held against currency notes.

It will be seen that Mr. Hope proposes to telegraph to the Secretary of State. I agree in the general sense of this telegram; but I think, considering the importance of the subject, it will be desirable to express our views at somewhat greater length. I would telegraph as follows:—

“Renter reports Mr. Gladstone to have stated that any measure calculated to promote re-establishment of value of silver will be favourably considered. Renter also reports that Indian delegates merely offer information to Conference. In view of great importance to India of result of Conference, we do not think that attitude of delegates should be entirely passive. We think that, as proposed in telegram of 11th ultimo, delegates should announce intention of India to retain silver coinage, with liberty to add gold hereafter. We are also of opinion that India should announce willingness to coin 34-anna pieces. We trust English Government will announce its willingness to coin similar pieces at mint for remittance to East only, together with modification of Bank Act in the sense of allowing silver coin and bullion to be held against currency notes, instead of silver bullion only.”



XXXIX.

DESPATCH FROM THE GOVERNMENT OF INDIA, TO THE SECRETARY OF STATE FOR INDIA, No. 143, DATED 10TH JUNE 1881.

We have the honour to acknowledge the receipt of Your Lordship's despatch No. 79, dated 24th February 1881,* in which we are invited to state our views, "in the event of its being proposed that India should become a member of a Union, based on principles of bimetalism for a limited term of years."

* No. 1. Telegram to Secretary of State, April 13th, 1881.

No. 2. Telegram from Secretary of State, May 11th, 1881.

No. 3. Telegram to Secretary of State, May 13th, 1881.

No. 4. Telegram from Secretary of State, May 14th, 1881.

No. 5. Telegram from Secretary of State, May 17th, 1881.

No. 6. Telegram to Secretary of State, May 18th, 1881.

No. 7. Telegram to Secretary of State, May 25th, 1881.

No. 8. Telegram from Secretary of State, May 25th, 1881.

2. Since the receipt of that despatch, the telegrams, copies* of which are enclosed in this despatch, have passed between Your Lordship and the Government of India. We learn from Your Lordship's telegram of the 25th ultimo that the Paris Conference has been adjourned to 30th June. We take the opportunity thus afforded to us of stating to Your Lordship our views at greater length than is possible in telegraphic communications.

3. It would be difficult to exaggerate the importance to India of the subject on which an expression of our opinion has been invited. The real loss by exchange to the Indian Treasury during the current year, resulting from the disturbance of the equilibrium previously existing between gold and silver, may be approximately estimated at Rs. 2,05,36,000 (see paragraph 80 of the Financial Statement for 1881-82). The actual loss, however, although a matter of great importance, is not, in our opinion, the point to which the greatest importance is to be attached. The real evil to which we are now exposed is, that we never know what our loss or gain may be. Silver has, during the last few years, failed to fulfil the chief function which is required of a standard of value. It has been subject to great fluctuations. Under these circumstances, it is difficult to initiate, with confidence, any policy of fiscal reform. Our estimates are liable to be upset at any moment by a sudden and gratuitous drain on our resources, arising from circumstances wholly beyond our control. We are aware that it has been sometimes argued that the evils arising from fluctuations in exchange have been exaggerated, and we agree in thinking that if the value of the rupee would settle down at, say, 1s. 3d., our financial difficulties would be by no means insuperable. We cannot, however, forget that the present condition of the silver market is deranged, owing mainly to the action of Germany and the consequent suspension in France of the Monetary Law of 1803. We can have no assurance that what has happened before may not happen again. Exchange may indeed, eventually, settle down at a figure, liable only to such changes as are consequent on variations in the balance of trade. Our whole financial arrangements may be adjusted on this basis, and stability to the silver market may possibly, for a few years, be ensured. But we can never feel sure that a further demoralisation of silver will not take place, with the result of again depreciating the

* Not printed in this volume.



rupee. We should then be again obliged to re-adjust our whole financial system. The result would probably be that we should either have to push economy in the civil administration so far as to cripple the development of the country, or that we should have to reduce our military establishments to a dangerous extent, or that we should have to look out for new sources of revenue—a course attended with considerable difficulty and open to some political objections. A further depreciation of silver is, indeed, at present by no means a remote or improbable contingency. Should, unfortunately, the Conference now sitting in Paris not result in any satisfactory arrangement, we can hardly hope that silver will remain at its present value. It seems more probable that a further depreciation will ensue.

4. We have dwelt upon the difficulty of initiating, with confidence, any policy of fiscal reform in the present condition of the silver market. We need scarcely remind Your Lordship of the many important questions bearing on the finances of India which remain at present in a position more or less unsettled. Powerful interests are constantly being exerted in England, with a view to reforms being effected in our customs tariff, and to a modification of the system under which our opium revenue is derived. The reduction of the salt tax is a measure which would confer great benefit on the population of India, and one to which our attention has frequently been directed by high authorities in England. The recent report of the Famine Commissioners abundantly testifies to the inadequate manner in which large tracts of country are protected against famine; and even if private enterprise be enlisted to aid in the construction of protective works, we can scarcely hope that those works will be constructed without causing some temporary drain upon our exchequer. In the present unsettled condition of the silver market, it is well nigh impossible to deal in any satisfactory manner with these and other questions, which in themselves present difficulties of no ordinary description.

5. The subject on which our opinion has been invited, is one upon which great difference of opinion exists amongst the highest authorities, whether in respect to the theories involved, or in respect to the practicability of giving effect to those theories. Under these circumstances, we think that our attitude should be one of caution and conservatism, and that we should go no further than necessity demands, in order to accomplish the main objects we have in view, namely, the rehabilitation of silver and the insurance of stability to the rupee. At the same time, it is so important that no action on behalf of India should be wanting to attain those objects, that we should hesitate to reject any means that we can legitimately adopt in order to ensure the success of the present Conference.

6. Whatever difference of opinion may exist upon this difficult question, we think that it will be generally admitted that even what is called particular bimetallism,—that is to say, the bimetallism of one State,—supposing it to be possible, would contribute to the objects we have in view, and that the attainment of those objects is rendered more and more probable as the number of States which entered the Bimetallic Union is increased. It is now universally admitted that the French Monetary Law of 1803 was, during the period of its operation, one of the chief factors in regulating the relative values of silver and gold throughout the civilised world. Mr. Stanley Jevons, himself a monometallist of distinction, has said that “for some 50 years it (that is to say, the value of silver) was held pretty steadily at this point ($15\frac{1}{2}$ to 1) by the action of the French Currency Law.”

7. We do not think it necessary that we should enter into a discussion



upon the theory of bimetalism, or that we should dwell on the many important collateral points on which such a discussion must necessarily touch. It would be impossible to treat the subject adequately within the limits of an ordinary despatch. We will only say, therefore, that the whole question has received our very careful attention, and that, should Your Lordship think it desirable, we are prepared to state at greater length the reasons which have led us to the conclusions which we are about to enunciate. For the present, we confine ourselves to a statement of those conclusions.

8. In our telegram of 13th April, we expressed our opinion that—

“India should be represented at the Conference on the basis that we will engage to coin silver in unlimited quantities at our mints, and to continue the use of silver as legal tender for debts of any amount for the period the proposed Convention remains in force, reserving the right of also coining gold freely and making gold also legal tender if hereafter Government thinks fit.”

At the same time we said that we had not as yet had time to consider thoroughly the question of whether any further measures could be adopted for rehabilitating silver and affording stability to the rupee, but that we hoped shortly to address Your Lordship on the subject. We gather from Your Lordship's Despatch No. 157 of 13th May, that the instructions given to the Indian Delegates are generally in accordance with our suggestions, with the exception that, according to those instructions, the term of years during which we are to engage that silver should be freely coined at the Indian mints is limited to ten. In our telegram of 18th May we have again expressed our opinion that the period for which India might pledge herself to continue the coinage of silver should not be limited to ten years, or other definite period, but should extend to the period during which the Convention of other nations remains in force. We are glad to learn from Your Lordship's telegram of 25th May that the statement of the Indian Delegates was favourably received. The value of that statement, we conceive, consists in this, that 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.

8A. We are inclined to think that this declaration is all that other Powers require from the Government of India, and we are confirmed in this impression by the statement in Your Lordship's telegram of 25th May, to the effect that no “further action on the part of the Indian Government has hitherto been suggested.” Without a more full report of the proceedings of the Conference than is at present available to us, it is difficult for us to express any further definite opinion as to the attitude which the Indian Government should adopt. It is difficult to predict, with confidence, what in the ultimate future would be the result if India were to join the Bimetallic Union. There is much to be said against anything in the nature of an experimental change in a currency system. It is, therefore, certainly an advantage to preserve full liberty of action for the future to the greatest extent possible; and if it is clear that the step already taken by the Indian Delegates is all that is required on the part of the Government of India, we should deprecate any further pledge being taken. We are unable to say how far a declaration on the part of the Government of India that they are willing to join a Bimetallic Union, would materially influence the results of the Conference. Should, however, the alternative present itself, between allowing any international arrangement to break down and pledging India to join the Bimetallic Union, we are of opinion that we should be justified in going a step further. Under these circumstances, we should be prepared to recommend that India should join the Bimetallic



Union, if a sufficiently large number of other Governments were prepared to join. If, for instance, the United States, the Latin Union, and Germany were prepared to join, we should think the combination sufficiently strong to justify us in joining also. In respect to our adhesion to any weaker coalition than that which we have named, we must reserve our opinion until we know what is its precise composition. By joining the Bimetallic Union, we mean that our mints would be freely open to the coinage of both gold and silver, the coins to be manufactured of each metal being legal-tender money in the same ratio to each other as that adopted by the other members of the Union. The most convenient coin for India would probably be, in respect to gold, a sovereign, and in respect to silver it would be desirable to manufacture a coin representing one-fifth of a sovereign in the ratio adopted by the Union. The various subsidiary points which arise in connection with this subject need not now be discussed.

9. Your Lordship will understand, therefore, that we should prefer to maintain the attitude which has been already adopted by the Indian Delegates at the Conference; but we recommend adhesion to a strong Bimetallic Union as decidedly preferable to the continuation of the present order of things.

10. In our telegram of 18th May, we venture to express a hope that Her Majesty's Government would, in respect to the engagements taken by England on her own behalf, go as far as was legitimately possible, to help any international arrangement which would give stability to silver, without committing itself to the bimetallic principle; and we suggested for the special consideration of Her Majesty's Government whether it would not be possible to arrange for the Bank of England to hold the full amount of silver reserve for which provision is made in Sir Robert Peel's Act. It would be beyond our province to discuss the attitude which Her Majesty's Government may think fit to adopt in respect to engagements taken on behalf of England. Neither, in fact, are we in a position to judge whether any of the suggestions which have, from time to time, been made in this respect, and which fall short of adhesion to the Bimetallic Union, are considered feasible or not. We would, however, again earnestly express a hope that, in view of the vast importance of the subject to India, any measure tending to facilitate an international arrangement, will receive the careful consideration of Her Majesty's Government. Whether, in the event of India joining the Union, the silver $\frac{1}{5}$ ths of a sovereign, which we propose to coin, might form a part of the Bank of England reserve in silver, to which we refer in our telegram of 18th May, and whether these coins might, to a limited extent, be made legal tender in England, are matters upon which we can express no opinion. They are entirely for the consideration of Her Majesty's Government; but should these measures be adopted, they would probably tend to increase the demand for silver and to give stability to the Indian exchange.

11. His Excellency the Viceroy dissents from this despatch, and has recorded his views in a separate Minute, which we enclose. Our Honourable Colleague, Major-General Wilson, agrees with the views set forth by His Excellency the Viceroy.



XXXIX 1—A.

MINUTE BY THE RIGHT HON'BLE THE MARQUESS OF RIPON, DATED 10TH JUNE 1881.

I regret to be obliged to record my dissent from a Despatch which has been agreed to by a majority of my colleagues ; but it appears to me, and it is admitted by those who are in favour of the despatch, that no one can be a party to it who does not believe in the soundness of the theory of bimetallism. I do not believe that theory to be sound, and, therefore, I cannot assent to the despatch.

It is true that the despatch gives but a timid and grudging approval to bimetallism. It admits that "without a more full report of the proceedings of the Conference than is at present available to us, it is difficult for us to express any further definite opinion as to the attitude which the Indian Government should adopt ;" and it states that "it is difficult to predict with confidence what in the ultimate future would be the result if India were to join the Bimetallic Union." It strikes me that the natural conclusion from such premises would have been that we should have waited before committing ourselves on the subject of bimetallism until we were in possession of a full report of the proceedings of the Conference and were able to gauge with some degree of confidence what would be the future result to India of the adoption of a double standard, and I am the more confirmed in my belief that a cautious and waiting attitude is that which, under present circumstances, it would be wise for us to assume, because I learn from the Secretary of State's telegram of the 25th May that the "statement of the Indian Delegates" at the Conference "was favourably received," and that "no further action on the part of the Indian Government has hitherto been suggested." This being so, a further step of such magnitude and importance as an offer to adopt bimetallism is, in my judgment, impolitic and unnecessary.

But the majority of my colleagues have thought otherwise, and they have determined to recommend to the Secretary of State to direct the Indian Representatives at the Paris Conference to declare, in certain contingencies set out in the despatch, that India is willing to join a Bimetallic Union. To such a recommendation I cannot be a party, because it involves and is admitted to involve, an approval on the part of the Government of India of the theory of bimetallism. Now what is the fundamental principle on which that theory is founded? It is laid down very clearly and unmistakably by M. Czernuschi in his pamphlet entitled "*M. Michel Chevalier et le Bimétallisme*" the opening words of which are as follows:—"Si les grandes nations se mettent concordamment à frapper monnaie d'argent pesant $15\frac{1}{2}$ fois leur monnaie d'or la valeur relative des deux métaux sur le marché général ne pourra plus varier ; un poids d'or vaudra partout $15\frac{1}{2}$ poids d'argent. Tout le Bimétallisme est là." This doctrine is, therefore, the foundation of bimetallism, and it must be borne in mind that M. Czernuschi does not confine his assertion of the power of a combination of nations to regulate by law the relative value of gold and silver, so that they cannot vary, to any particular ratio which may approach to the real market ratio of the day. He prefers the ratio of $15\frac{1}{2}$ to 1, but he holds that it is in the power of a combination of Governments to fix and to maintain any ratio they please. He says (Bimetalism at $15\frac{1}{2}$ to 1, page 36),—"In principle all ratios are equally



good ; the ratio at 10, the ratio at 15, the ratio at 20 would each work with the same efficacy and the same regularity, were any of them adopted by great States furnished with ample supplies of metallic money." It seems to me undoubtedly to follow from these statements that, if the bimetallic theory were true, it would be in the power of an union of great States to decree that an ounce of silver should be equal in value to an ounce of gold, and that thenceforth their value in the general market would at once become equal and could not change ("nepourra plu varier") so long as the Union chose to maintain its laws unaltered. In such a doctrine I am quite unable to believe : it appears to me to be contrary to some of the most essential principles of Political Economy ; it is based, as I think, upon a misconception of the laws which regulate the value of gold and silver ; and I cannot divest myself of the conviction that a theory resting upon such a misconception must in the course of time produce those mischievous consequences which always follow, slowly it may be, but surely, upon any attempt on the part of men or of Governments to interfere with the operation of natural laws. I cannot, therefore, recommend the Secretary of State to pledge the Government of India to the adoption of a system derived from a theory so fundamentally unsound.

I desire also to point out that no information whatever has been furnished to the Government of India by the Financial Department with a view to show what would be the effect in India itself of the introduction of a legal tender gold coinage. We have no facts before us which would enable us to form any judgment as to whether the new gold coins would form an effective and useful addition to the existing circulation, or whether they would, to whatever extent they might be accepted by the public, displace the silver now in circulation. The despatch alludes to the manufacture of a new silver coin of 34 annas ; but no evidence has been laid before the Government upon which a safe opinion could be founded as to the existence of a desire on the part of the mercantile community in this country, or of the people at large, for the introduction of such a piece, or as to the effect upon the ordinary transactions of life of the issue of a coin which is not a multiple of the rupee. It appears to me that these and similar questions ought to be very carefully examined and considered before the Government of India binds itself to foreign Governments to adopt a bimetallic system of currency.

I wish, finally, to place upon record my entire agreement with the views expressed by the Secretary of State when he says in his instructions to the Indian Representatives at the Monetary Conference at Paris that he is "ready to consider any measures which might be suggested for adoption in India as being calculated to promote the re-establishment of the value of silver." I feel strongly the importance of resorting to any sound and well-considered proposals calculated to produce that effect ; I have already concurred with my colleagues in submitting such proposals to the Secretary of State ; and I shall be at all times prepared to support any further measures having that object in view, which are not inconsistent with sound economical principles, after they have received that cautious and deliberate examination to which all measures affecting the currency ought always, as it seems to me, to be submitted.



XL

DESPATCH FROM THE GOVERNMENT OF INDIA, TO THE SECRETARY OF STATE FOR INDIA, No. 45, DATED 2ND FEBRUARY 1886.

On the 12th instant, we addressed to Your Lordship the telegram,* of which a copy is appended to this despatch, on the subject of the present uncertainty regarding the future relative value of gold and silver, and we now desire to lay before Your Lordship a statement of the grounds on which we consider it desirable that an attempt should be made, at the present time, to bring about a renewal of the discussion of a question which is of vital importance to our finances, and of which, up to the present date, no satisfactory solution has been obtained.

In doing so, it will be necessary for us to refer to the facts of past years, but we shall refer to them briefly, and only at such length as is required to explain our general line of argument.

2. The immediate cause of the wide departure from the old ratio of exchange between gold and silver, which has been witnessed within the last twelve years, was the abandonment of the free coinage of silver by the Latin Union in 1874, and this date may conveniently be taken as our starting point.

The stoppage of the free coinage of silver by the Latin Union led to a rapid and heavy fall in the gold price of silver, the average rates obtained in successive years for bills drawn on India by the Secretary of State having been as follows:—

	s.	d.
1872-73	1	10.81
1873-74	1	10.35
1874-75	1	10.22
1875-76	1	9.64
1876-77	1	8.49
1877-78	1	8.79
1878-79	1	7.76
1879-80	1	7.96
1880-81	1	7.96

3. The fall in the rate of exchange between India and England imposed upon the Indian finances a heavy burden, and the financial embarrassment which it caused was aggravated by increased expenditure in connection with the Bengal Famine in 1873 and 1874 and the Madras and Bombay Famines in 1876, 1877, and 1878, as well as by heavy expenditure on military operations in Afghanistan in 1879-80 and 1880-81. Speaking generally, the period of financial pressure to which we refer may be said to have extended from 1873-74 to 1880-81, and to have involved increased taxation, large reductions in public works expenditure, and a heavy addition to the gold debt held in England. Ultimately, when war and famine ceased, the growth of revenue under the influence of good harvests and consequent general prosperity proved to be more than sufficient to cover the increased expenditure due to loss by exchange and other causes, and the financial difficulties of the Government of India had completely disappeared in 1881-82, the surplus of that year being no less than £2,532,000.

4. The satisfactory state of the finances in the beginning of 1882 enabled the Government of Lord Ripon to make large remissions of taxation.

At that time, the state of the exchange between India and England justified the adoption in the estimates of 1s. 8d. per rupee as the rate for the home remittances of the Indian Government during the coming year.

* Not printed in this volume.



Between March 1882 and March 1885, however, the decline in the exchange value of the rupee, apart from merely temporary fluctuations due to special causes, was continuous though not rapid, and in framing the estimates of 1885-86, it was not considered safe to take a higher rate than 1s. 7d.

Notwithstanding the additional burden imposed on the Indian finances by the fall of a penny in the rupee, which occurred in the three years above referred to, the steady growth of the revenue more than covered the additional loss by exchange, and the estimates of 1885-86 showed that the actual position of the finances was thoroughly sound, and that there was a larger margin of reserve than there had been in 1882-83, the year immediately following the remissions of taxation made by Lord Ripon.

5. Although the actual position of the finances was, as we have just said, thoroughly sound in March 1885, we had at that time in prospect the possibility of largely increased expenditure which caused us serious anxiety, and to which special reference was made in the Financial Statement for 1885-86.

When we entered on the year 1885-86, we were committed to an extensive programme for the construction of Famine Railways to be carried out in the course of about five years; these Railways, however valuable for the protection of the country against the effects of famine, could not be expected for many years to yield returns adequate to cover the interest charge on the cost of construction; we had also in hand the construction of two costly Frontier Railways, namely, the Sind-Pishin, which cannot be expected to give a full direct return for the money spent on it, and the Sind-Sagar.

We were, however, able to set aside £500,000 in the estimates of 1885-86 as a charge against revenue on account of the cost of the Sind-Pishin Railway, and we had every reason to anticipate that, in the absence of special disturbing causes, our resources would be adequate to meet the demands on account of Famine Railways.

The apprehensions which we expressed in March 1885 have, unfortunately, been realised.

The year 1885-86 had not actually opened when it was found necessary to make extensive military preparations which have caused a deficit that must add in some degree to the permanent burdens of the future.

A system of Coast and Frontier defences as well as certain additions to the Frontier Railways was also found necessary during the year, and the increase to the Native and European Army, which has been sanctioned, will ultimately cost not less than £1,500,000 yearly. We cannot doubt that the total additional expenditure to be incurred for the defence of the country will, in the course of a very few years, exceed, rather than fall short of, £2,000,000 yearly.

6. An additional charge of £2,000,000, suddenly imposed, would at any time seriously embarrass the finances of India, and the increase of expenditure for the defence of the country has coincided with a heavy fall in the gold value of the rupee.

The rate of exchange, which was 1s. 7d. when the financial arrangements for 1885-86 were made, is now below 1s. 6d., and the addition to our annual expenditure on this account will not be less than £1,000,000.

7. The increased expenditure on account of the Army, on account of Frontier Railways, and on account of Coast and Frontier defences, must be accepted as due to the action of a foreign power whose policy is beyond our control, and whom we can only influence indirectly, except in so far as our military preparations place us in a position to repel aggression. But we do



not, and cannot, admit that the fluctuations in the relative value of gold and silver are beyond control, or that it is impossible, by international agreement, to confine these fluctuations within the limits which prevailed up to 1873.

If, as we believe, it is possible to secure a stable ratio between gold and silver, a serious responsibility will rest both on the Government of India and on Her Majesty's Government, if they neglect any legitimate means to bring about this result. We need not again refer to the financial difficulties which embarrassed the Government of India between 1873 and 1881, but we desire to call Your Lordship's earnest attention to the fact that between March 1882 and the present date the fall in the exchange value of the rupee has imposed upon our finances a burden of nearly equal magnitude with that which has been thought necessary for the defence of India on account of the approach towards her frontier of one of the great military powers of Europe. It may be that the fall in exchange has reached its limit for the time, but we have, at this moment, no guarantee that the burden of £2,000,000 yearly to which we have just referred will not, either within a very few months or at some future time, more or less remote, be increased two-fold by the decision which the United States of America may pronounce on a question affecting her internal system of currency, in dealing with which she is not bound, and cannot be expected, to consult the interests of India in the slightest degree.

8. The fall in the gold value of the rupee which has occurred during the past year is mainly due to speculation regarding the repeal or modification of the Bland Act by America, and its effect is to add a crore of rupees to our burdens in the course of a single year.

Our financial position is affected from day to day by the continuous fall in the rate of exchange, the forecasts which we make of our probable expenditure are no sooner completed than they prove to be worthless, and the best-considered financial arrangements may be upset at any hour by a telegram regarding the probable action of political parties in a distant country with which we have but a very slight connection either from a political or commercial point of view.

This state of affairs would be an evil of the greatest magnitude in any country in the world; in a country such as India it is pregnant with danger. A very few months ago we submitted for Your Lordship's approval a statement of the financial measures by which we hoped to be placed in a position to meet the additional expenditure which would fall on us during the next few years. Our proposals had hardly received Your Lordship's sanction, and a Bill been introduced into the Legislative Council for the purpose of imposing a modified Income Tax, when disquieting rumours regarding the probable action of the United States of America caused a further fall in exchange, and it became evident that we could not count on obtaining in 1886-87 even an average of 1s. 6d. per rupee.

At the very moment when this Despatch was being drafted, it was reported by telegram that an American statesman and an American newspaper had expressed an opinion that the Bland Act would not be repealed, and immediately there was a perceptible rise in the rate of exchange.

It is no exaggeration to pronounce such a state of affair to be from our point of view intolerable.

9. India enjoys, at the present time, complete internal tranquillity, and, with the exception of the comparatively unimportant military expedition to Upper Burma, she is at peace with all the world; the harvest just reaped has



been a good one, and the coming harvest promises to be above the average; the opium reserve stands high, Railways bring in an increasing revenue, and though the increased military expenditure is a heavy burden, it is one which is, to some extent, within our control, and which need not be incurred to the full amount immediately. In such circumstances, we might expect to be able to look forward with confidence to the issue of the Financial Statement for 1886-87 in March next. But we cannot do so. If the Bland Act is maintained as at present, exchange may rise to 1s. 7d. per rupee; if it is modified or repealed, it may fall to 1s. 5d. or to 1s. 4d. or even lower. The difference in our expenditure between a rate of 1s. 7d. and a rate of 1s. 4d. is more than £3,000,000, and no foresight will enable us to remove this element of uncertainty from our estimates. The reductions which we hope to effect, as well as the addition to our revenue by taxation which we are about to impose, are liable to be swallowed up in an instant by the action of political parties in the United States of America with whose motives and intentions we can hardly be said to be acquainted.

The soundness of our estimates for 1886-87 depends, not on the existing state of our finances, nor on the probable revenue of the coming year, nor on expenditure which we can control, but on the balance of political parties in regard to the currency of a foreign and distant country.

10. We do not hesitate to repeat that the facts, set forth in the preceding paragraphs, are, from the point of view of Indian interests, intolerable; and the evils which we have enumerated do not exhaust the catalogue. Uncertainty regarding the future of silver discourages the investment of capital in India, and we find it impossible to borrow in silver except at an excessive cost.

On the other hand, the Frontier and Famine Railways which we propose to construct, and the Coast and Frontier defences which we have planned, are imperatively required and cannot be postponed indefinitely.

We are forced, therefore, either to increase our sterling liabilities, to which course there are so many objections, or to do without the Railways required for the commercial development of the country, and its protection against invasion and the effects of famine. The abandonment of the Frontier and Famine Railways we have in hand would be a wasteful measure, and is practically impossible. They must be completed, and even a temporary check to their progress is greatly to be deprecated. If a stable ratio between gold and silver cannot be secured, we must continue to add to the gold debt of India, though we are fully aware of the objections to borrowing largely in England in a time of peace, and view with apprehension the additional burden which will be imposed on India when borrowing in England ceases, and the remittances from India must be increased in order to pay the interest charge on an increased gold debt.

11. Nor can the difficulties which local bodies experience in borrowing in India be overlooked. The Municipalities of Bombay and Calcutta require large sums for sanitary improvements, but the high rate of interest which they must pay for silver loans operates to deter them from undertaking expensive works, and we need hardly remind Your Lordship that it has quite recently been found necessary for Government to undertake to lend the money required for the construction of Docks at Calcutta and Bombay, and that when the Port Commissioners of Calcutta attempted to raise a loan of 75 lakhs of rupees in September 1885, guaranteed by the Government of India, the total amount of tenders was only ₹40,200, and no portion of this insignificant amount was offered at par. At this moment the Port Commissioners of Calcutta are



raising a loan of 30 lakhs on which they offer $5\frac{1}{2}$ per cent. interest, although in June 1881 they raised a $4\frac{1}{2}$ per cent. loan at $6\frac{1}{4}$ premium.

In June 1881 the $3\frac{1}{2}$ per cent. gold debt of India stood at £102 $\frac{1}{2}$; at present it stands at £100 $\frac{1}{2}$. The higher rate of interest which local bodies have now to pay appears therefore to be mainly caused by the prevailing distrust of silver securities due to the uncertainty regarding the future of silver.

The interests of the European officers of our Government also demand recognition. The additional cost of remittances to Europe on account of their families now forms a heavy item in their expenditure, and officers whose pensions are fixed in rupees find their resources seriously crippled on retirement and return to England. The fact that the modified Income Tax which is under consideration must add to the burdens of the more poorly paid of these officers has been a matter for serious consideration in deciding whether this form of taxation should be introduced or not, and although the general considerations involved are too important to permit of our abandoning the Tax on the ground above indicated, we cannot doubt that the imposition of an Income Tax on those who have already suffered very largely by the fall in exchange will greatly add to the unpopularity of that measure and to the difficulty experienced in working it.

12. We also desire to represent for Your Lordship's special consideration that the present state of affairs would constitute a serious additional danger in the case of a war with a great power, involving heavy expenditure.

The money required for carrying on a great war could only be obtained by borrowing in Europe and in gold; the rate of exchange would be temporarily raised thereby; and it is even possible that some of the countries which now hold a large amount of silver coin rated at a value in excess of its present market price, might take the opportunity to relieve themselves of a portion of their silver currency.

The strain on the Indian finances would be excessive, and possibly more than they could bear, when we were called on to remit to England the interest on the money we had borrowed, while at the same time the rupee was subjected to a further depreciation of indefinite amount.

On this ground alone, it seems to us that sound policy requires an attempt to be made to secure a stable ratio between gold and silver.

13. In addressing Your Lordship we, naturally, base our main arguments on the difficulties which affect the Indian finances; but the dangers and difficulties arising from the present state of things are, in our opinion, by no means confined to India, or to those countries which hold a large amount of silver valued above its present market price.

We will not discuss the vexed question of the appreciation of gold: any such discussion would be out of place in the limits of a despatch; but authorities of eminence have held that any further restriction of the use of silver as a medium of exchange would be productive of grave evils, and we would draw Your Lordship's attention to the remarks made by the English Commissioners at the International Monetary Conference of 1878, and which they thought of sufficient importance to repeat in their Report, dated 27th November 1878, to the Lords Commissioners of Her Majesty's Treasury—

“While putting aside entirely the question of the double standard, there was another question which appeared to be practical and useful to put, *viz.*, assuming that the general double standard proposed by the United States could not be adopted, what would be the future of silver; towards what aim ought the various States to direct their efforts? This aim we considered to be to keep silver in the position which it occupies at present as the



partner or natural ally of gold in all parts of the world where it might be possible to do so. We considered that a campaign undertaken against silver would be exceedingly dangerous, even for the countries who have given a position as legal tender only to gold."

We do not desire to do more than merely allude to this aspect of the question, and shall content ourselves with remarking that a heavy fall in gold prices has in point of fact coincided with the partial demonetization of silver, and that further progress in the same direction could not be viewed otherwise than with apprehension by the nations concerned.

Attached to this despatch will be found a statement showing the prices of wheat and of cotton in England and in India since 1870; the English prices are in gold, the Indian prices in silver, and it will be seen that there has been a much heavier fall in English than in Indian prices.

We do not believe that the entire fall in the English prices of either wheat or cotton is due to the fall in the rate of exchange, but we see no reason to doubt that the rate of exchange has had a material influence in bringing about this fall. As an illustration of the far-reaching effects of any considerable change in the relative value of gold and silver and of the economic disturbance which it causes, we would call Your Lordship's special attention to the fact that the Indian cultivator of wheat and cotton appears to have actually gained, while the English and American producer of these commodities has suffered, by the fall in the rate of exchange.

14. The discussions, which have taken place since Germany began the demonetization of silver in 1871, have shown that the complete demonetization of either gold or silver is an impossibility, and that any further progress in substituting gold for silver would be productive of widespread evils which would increase in magnitude the further the process was carried. Moreover, the interests of the whole world are now so closely bound together by commercial relations, that even a country which looked exclusively to its own interests could not afford in the present day to preserve a position of absolute isolation. This argument is of special force when the two countries are so intimately connected as are India and England, and we would earnestly press upon Your Lordship the importance of losing no opportunity that may offer of promoting remedial measures for the evils from which we and, in our opinion, other countries are now suffering.

Although we have for a series of years escaped the evils of famine, our financial position is no better than it was in 1874-75. We are again suffering from a fall in the gold value of the rupee, and even if we tide over our present difficulties, we have no reason to suppose that similar difficulties will not recur again, and possibly in an aggravated form, and at a time when we shall be in a worse position to encounter them. The words used by Lord Lytton's Government in a despatch, dated 9th November 1878, might be applied, almost literally, to the circumstances of the present day:—

"At the present time, when political events may throw upon India new burdens of unusual magnitude, the position of our Government in relation to this question assumes a character of extreme gravity. Whether, if such demands upon us arise, they would require us to have resort to increased taxation to provide additional resources for the service of the year, or to loans to meet sudden or unusual charges, or, as may be more probable, to a combination of the two, the anxiety that will attend our Financial Administration must be very great; and if the holders of silver should, under any combination of circumstances, throw any considerable quantity on the market, as is at all events possible, the consequences to India might be financially disastrous. How a sudden call to supply by taxation a million or more to provide for further loss by exchange, and one or two millions for war charges could be met, we are at a loss to know; yet that such demands might arise, no one can say is so improbable as to remove them from a serious claim on our attention. The prospects of a



lean in such a case would not be much more satisfactory. Any temporary relief obtained by borrowing in England would be more than compensated by the increased burdens created in the future, and the necessary tendency of things would be to go from bad to worse."

The question of the future relations of gold and silver has been allowed to drift for fully twelve years, and our difficulties are as great as were those of our predecessors in 1874 and 1878; if remedial measures are not adopted in time, our successors will employ the same language that Lord Lytton's Government used in 1878, and that we find it necessary to repeat in the present day, and their words will come with all the greater weight because they will be used in the presence of actual danger to the empire.

15. The difficulties and uncertainties at all times inseparable from Indian finance are such that no cause of apprehension which can be removed should be allowed to remain a day longer than can be helped. No efforts which the Government of India or Your Lordship can make will affect the vicissitudes of good or bad seasons, and no foresight or sagacity will render us absolutely secure from war, or remove the uncertainties regarding the opium revenue. But the establishment of a fixed ratio between gold and silver is not beyond the possibility of human control, and the ordinary prudence requires that steps should be taken to remove every preventible cause of future financial embarrassment. Your Lordship will no doubt be guided by circumstances in deciding on the time and manner which may appear most opportune for action, but, looking to the vast importance which the question possesses for the Government and people of India, we think Your Lordship would be justified in taking the initiative in promoting a conference for the consideration of remedial measures.

The International Monetary Conference, which met at Paris in 1881, was adjourned to 1882, in order to give an opportunity for diplomatic negotiations between the States interested in the monetary question. Subsequently, as we were informed in Lord Hartington's Despatch No. 137, dated 4th May 1882, the Conference was postponed until a still later date. Since Lord Hartington's Despatch of 4th May 1882, we have not received any further communication on the subject, and we can only infer that it was found impossible to frame positive proposals, which would be generally acceptable to the States concerned.

Recent events have, however, brought into greater prominence the evils with which the world is threatened by the state of the currency in the United States of America and in the countries comprised in the Latin Union, and the present time would appear to be a favourable one for re-opening the whole question. Even if Your Lordship see no prospect of immediate success, we should still recommend that the question be raised again. The evils connected with the present state of affairs are so serious that the adoption sooner or later by international agreement of measures which will bring about a stable ratio between gold and silver appears to us to be only a question of time. A wide and general discussion of the question is essential to the formation of a body of public opinion sufficient to enforce a final settlement, and the sooner a final settlement is taken in hand, the easier it will be to carry out, and the more satisfactory to all concerned will be the result.



XLI.

DESPATCH FROM THE SECRETARY OF STATE FOR INDIA, TO THE GOVERNMENT OF INDIA, No. 194, DATED 8TH JULY 1886.

In continuation of Lord Randolph Churchill's Despatch of the 28th of January, No. 20, * I transmit, for the information of Your Excellency, a copy of a further correspondence † which has passed with the Treasury on the subject of a settlement of the exchange question being brought about by International Agreement.

2. Your Excellency will perceive that it would have been useless to press on the Treasury the suggestion made in your telegram of the 29th of May.*

From J. A. GODLEY, Esq., to the Secretary, Treasury, dated 17th March 1886.

In continuation of the letter from this Office of the 26th of January last, relative to the fall in the exchange value of the rupee consequent on the depreciation of silver, I am directed by the Secretary of State for India in Council to forward a copy of a letter † which has now been received from the Government of India on the subject.

From HENRY H. FOWLER, Esq., to the Under Secretary of State for India, No. 1728—4707, dated 31st May 1886.

The Lords Commissioners of Her Majesty's Treasury have had before them your letter of the 26th January last, in which Lord Randolph Churchill in Council called the attention of their Lordships to the very serious difficulties which are being caused in the financial administration of India through the continued fall in the price of silver in relation to gold, and the uncertainty which exists as to the future exchange value of the rupee.

2. I am to observe, in the first place, that this letter appears to be based on a brief telegram from the Government of India, dated the 12th January,* a copy of which accompanied your letter of the 17th March.*

3. In that telegram the Government of India adverts to the well-known fact that the Indian Exchequer suffers from a depression in the value of silver; but, as regards the remedy to be applied to that evil, they simply state that "the interests of British India imperatively demand that a determined effort should be made to settle the silver question by international agreement." They insist upon the necessity of "a solution of the silver question," and "earnestly commend the question to the early consideration of Her Majesty's Government." But they offer no definite indication of the nature of the international agreement which should supply the solution of the silver question.

4. The letter addressed by Lord Randolph Churchill to this Department on the 26th January indicates the mischiefs arising from the depression and fluctuation in value of silver upon the Indian revenue; it points out the difficulties in the way of additional taxation, and the obstacles to the negotiation of necessary loans, due to the fall in silver. These disadvantageous circumstances are, and have long been, well known to every one who is conversant with Indian finance. But Lord Randolph Churchill's letter seems to supply no more definite suggestion as to the desired or possible remedy

* Not printed in this volume.



than is to be found in the telegram of the Indian Government. He states that "the Secretary of State for India in Council cannot avoid the conclusion that it is imperatively necessary to make every effort to find some remedial measures which will release the Government of India from the position in which it is now placed." What those remedial measures ought to be is nowhere stated either by the Indian Government or by the Secretary of State in Council. Lord Randolph Churchill most earnestly presses upon my Lords the importance of making every endeavour that is possible to bring about by international agreement some settlement of the question how the free coinage of silver may be revived, and the comparative stability of the relative value of gold and silver may be insured. What my Lords would have been glad to have learned would have been the definite views of the Government of India and the Secretary of State as to the particular means by which these objects were to be effected.

5. Since Lord Randolph Churchill's letter of the 26th January, a Despatch from the Government of India, dated Calcutta, 2nd February, was received and reached this Department on the 17th March. That Despatch sets out the grounds upon which the telegram of the 12th January was founded. It adverts to the fall in the value of silver, to the loss upon exchanges, to the great increase of Indian expenditure, to the disadvantages both to the Public Exchequer and to the private interests of the European officers of the Indian Government arising from the additional cost of remittance, and also to the fact that corresponding advantages are "actually gained by the Indian cultivator of wheat and cotton," a circumstance which can hardly be regarded as injurious to the Native community of India. This state of things is declared to be intolerable.

6. As a result of this review of the inconveniences caused by the depression in the value of silver, the Government of India express their opinion (paragraph 15) that, though many elements in human affairs may be uncertain, and "no efforts which the Government of India or the Secretary of State can make will affect the vicissitudes of good or bad seasons, and no foresight or sagacity will render us absolutely secure from war or remove the uncertainties regarding the opium revenue," yet there remains one thing which is "not beyond the possibility of human control," and that is, "the establishment of a fixed ratio between gold and silver." The proposition thus stated as an undoubted axiom is, however, one of the most disputable and disputed points in economic science. My Lords may, in passing, compare with this statement the declaration recorded by Mr. Goschen, Mr. Gibbs, and Sir Thomas Secombe, as the representatives of Her Majesty's Government at the International Monetary Conference of 1878, that "the establishment of a fixed ratio between gold and silver was utterly impracticable." The Indian Government further express their belief (paragraph 7) that it is possible to "secure a stable ratio between gold and silver," and that "a serious responsibility will rest both on the Government of India and on Her Majesty's Government if they neglect any legitimate means to bring about this result." It would, however, have been more satisfactory if the Indian Government had undertaken to explain the grounds of their confidence that a stable ratio between gold and silver can be established, and the methods by which this is to be accomplished.

7. It is the more remarkable, that the Government of India and the Secretary of State should have confined their observations to these very general propositions, considering that all the facts, so far as they are material,



have been previously discussed between the India Office and this Department at a time when the Indian Government submitted definite proposals for the remedy of the evils complained of. Those proposals were then carefully examined, and pronounced to be inadmissible. There is little that is new in the present state of the facts or which could affect the principles on which the discussion was then based. The loss to the Indian Exchequer at that time, though not so great as at the present time, amounted to three millions and a quarter, and the arguments then alleged against schemes with a view to alterations in the currency remain in full force. In renewing the subject it might have been desired that the Indian Government should have given some reply to the reasons which have hitherto prevailed against their proposals, and had shown that they had some scheme now in view which was not obnoxious to similar objections.

8. In December 1878 Lord Cranbrook, then Secretary of State for India, forwarded to the then Chancellor of the Exchequer (Sir Stafford Northcote), without any expression of opinion, two Despatches from the Government of India, containing certain proposed remedies for the evils arising out of the depression in the value of silver, which were then in full force. In the only one of those Despatches to which reference need here be made, after unfavourable reference to previous suggestions, (1) that a gold standard and gold currency should be introduced into India, and (2) that the weight of silver in the rupee should be increased, it was proposed to limit the free coinage of silver at the Indian mints. The intention of this change was to introduce into India a gold standard while retaining its native silver currency, the ratio between the currency unit (the rupee) and the standard (the sovereign) being fixed arbitrarily by the Government. The means for attaining this end are worked out in the Despatch with great elaboration of detail.

9. This Despatch and its proposals were submitted by Lord Cranbrook, on behalf of the Indian Government, and Sir Stafford Northcote, as Chancellor of the Exchequer, to a committee consisting of Sir Louis Mallet, Mr. Edward Stanhope, M.P., Sir Thomas Seecombe, Mr. (now Sir Thomas) Farrer, Mr. (now Sir Reginald) Welby, Mr. Giffen, and Mr. Arthur Palfour, M.P. These gentlemen reported, on the 30th April 1879, that, "having examined the proposals contained in the Despatch, they were unanimously of opinion that they could not recommend them for the sanction of Her Majesty's Government."

10. Subsequently, on the 24th November 1879, the Treasury replied in detail to the proposals of the Indian Government. In the first part of that letter, which summarizes the case as stated in the Despatch, I am to call the particular attention of the Secretary of State to the following passages, which seem to apply with equal force to the present situation :—

"My Lords need not point out that a change of the Currency Laws is one of the most difficult tasks which a Government can undertake, and that it is most inadvisable to legislate hastily and under the influence of the pressure of the moment, or of an apprehension of uncertain consequences, upon a subject so complicated in itself, and so important to every individual of the community, in its bearing upon the transactions and obligations of daily life.

"It is not proved that increase or readjustment of taxation must necessarily be the consequence of matters remaining as they are, for nothing is said about reduction of expenditure, and equilibrium between income and expenditure may be regained by economy of expenditure as well as by increase of taxation. Further, the cost of increase of salaries may be met, or at least reduced, by a careful revision of establishments.

"My Lords must point out that there is little or nothing in the Despatch to show the precise nature of the injury which the trade of India, in the opinion of the Government of India, has sustained through the fall of silver."



"It has not yet been established whether the variations in the relations between gold and silver may not have been caused by appreciation of the former metal as well as by depreciation of the latter, or by a combination of both. If appreciation of gold enter into the calculation, the effect on the loss by exchange must evidently differ from that caused by depreciation of silver alone.

"Nor can my Lords admit that the responsibility for doing nothing is as great as that for doing something. The present evils are not the results of any Governmental action, while the responsibility of the proposed scheme would rest wholly with the Government. 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.

"A perusal of the Despatch leads to the conclusion that the Government of India are especially anxious to put an end to the competition of silver against their own bills as a means of remittance to India. But my Lords must ask whether this would be more than a transfer of their own burthen to other shoulders; if so, who would eventually bear the loss, and what would be the effect on the credit of the Government and on the commerce of India?"

The Treasury then proceed to point out at length the objections which they entertain to the then proposals of the Indian Government, and sum up their effects as follows:—

"If the present state of exchange be due to the depreciation of silver, the Government scheme, if it succeeds, may relieve—

- "(1) The Indian Government from the inconvenience of a nominal readjustment of taxation, in order to meet the loss by exchange on the home remittances.
- "(2) Civil servants and other Englishmen who are serving and working in India, and who desire to remit money to England.
- "(3) Englishmen who have money placed or invested in India which they wish to remit to England.

"But this relief will be given at the expense of the Indian taxpayer, and with the effect of increasing every debt or fixed payment in India, including debts due by ryots to money-lenders; while its effect will be materially qualified, so far as the Government are concerned, by the enhancement of the public obligations in India, which have been contracted on a silver basis."

The Treasury find no reason stated in the Despatch of the Government of India in the present year which induces them to dissent from the conclusions thus set forth on the authority of Sir Stafford Northcote as to the results of any attempt artificially to enhance the gold price of silver.

11. Whilst it is admitted that some benefit might be derived by the European officers of our Government from the proposed measures, it is shown how injurious would be their effect upon the Indian taxpayer. Since that time, the great stimulus which the fall in the value of silver is believed to have given to the export trade of Hindustan, and the great addition which has accrued in consequence to its commercial wealth and the industry of its people, reinforce the warning then given against rashly meddling with a condition of things which may well have brought to the people of India more of advantage than of loss. It is impossible to regard this question exclusively from the point of view either of the Indian Exchequer or of the Anglo-Indian official without a corresponding regard to the general effect of the fall in the gold price of silver upon the trade and prosperity of the great mass of the population. It may be that the loss sustained by the revenue on the exchange has been far more than counterbalanced by the augmented wealth derived from the Indian export trade, which is known to have advanced in recent years "by leaps and bounds." This view of the matter is well given by Mr. D. Barbour, Financial Secretary to the Government of India, at pages 149 and 153 of his recent work on "The Theory of Bimetallism," where he sums up the question of gain or loss to India from the recent changes in the ratio between the precious metals:—

"The progress of the Indian Revenue shows that the general prosperity of the country, which is largely due to the stability of price maintained by the partial demonetization of



silver, very materially counterbalances, even from a purely financial point of view, the increasing burthen thrown on the Government of India by the fall in the rate of exchange.

"India has suffered from the partial demonetization of silver, because her obligations contracted in gold now impose a heavier burden on her than they otherwise would have done, because capitalists whose resources are in gold hesitate to invest money in a country where the standard is silver, and because an additional uncertainty has been introduced into all commercial transactions between silver and gold-using countries. On the other hand, the partial demonetization of silver has prevented a fall of prices in India, and has thereby conferred a boon of immense value on the country. Grievous as is the burden which the so-called loss by exchange imposes on Indian finance, and difficult as it is for the Indian Government to recruit its resources by additional taxation, I should, if I were forced to strike a balance between the gain and the loss, hesitate to say that on the whole India has, up to the present date, been a loser."

(See also the facts and figures set forth in the same work at pages 145—150.)

12. The Despatch of the 2nd February, from the Government of India, seems, so far as it suggests any practical course of action, to point especially to an International Conference on the silver question; and it is therefore necessary to consider what has already been done in that direction. In 1878 an International Conference was held at Paris, at which Her Majesty's Government was represented by Mr. Goschen, Mr. H. H. Gibbs, and Sir Thomas Seecombe, Financial Secretary at the India Office. At that Conference the United States Commissioners put forward the following propositions:—

"It is the opinion of this assembly that it is not to be desired that silver should be excluded from free coinage in Europe and the United States of America. On the contrary, the assembly believes that it is desirable that the unrestricted coinage of silver and its use as money of unlimited legal tender should be retained where they exist and, as far as practicable, restored where they have ceased to exist.

"2. The use of both gold and silver as unlimited legal tender money may be safely adopted—

"(1) By equalizing them at a ratio to be fixed by international agreement.

"(2) By granting to each metal, at the relation fixed, equal terms of coinage making no discrimination between them."

In answer to these propositions the following Resolutions were proposed by the French and English Delegates, and carried by a large majority:—

"1. That it is necessary to maintain in the world the monetary functions of silver as well as those of gold, but that the selection for use of one or the other of these two metals, or of both simultaneously, should be governed by the special situation of each State or group of States.

"2. That the question of the restriction of the mintage of silver should equally be left to the discretion of each State or group of States, according to the particular position in which they may be placed; and the more in that the disturbance which in recent years has been produced in the silver market has variously affected the monetary situation of the several countries.

"3. That the differences of opinion which have appeared, and the fact that even the States in which the double standard exists, find it impossible to enter into any engagement with regard to the unlimited coinage of silver, preclude the discussion of the question of establishing an international relation of value between the two metals."

To this Mr. Goschen added a declaration that he and his colleagues, "while not in favour of the universal adoption of a single gold standard, considered that the establishment of a fixed ratio of gold and silver was utterly impracticable, and that they were opposed to a system of currency based upon a double standard." (See Report of Mr. Fremantle, House of Commons Paper No. 221 of 1882.)

13. In 1881 Her Majesty's Government consented to take part in another Conference also at Paris, the correspondence connected with which is contained in the House of Commons Paper 449 of 1881. The views of the Treasury at



that time are stated in letters of the 11th March (page 3) and 21st April (page 11), of which the following passages give the substance :—

“ My Lords must point out that changes in monetary policy, affecting, as they do, the daily transactions of every class of the community, are of so grave a character, that they ought not to be discussed unless there be reasonable ground for anticipating a practical result.

“ The United Kingdom has, since 1816, confined itself to a single standard of value—gold. The policy of a single standard has been accepted by Governments of all parties and by the people. An entire change in public opinion must take place before a change of monetary policy in this country could be seriously contemplated. Such change of opinion has, so far as my Lords can judge, not taken place, and Her Majesty's Government, therefore, could not undertake to assent, on behalf of the United Kingdom, to the principle of a double standard.”

Instructions were accordingly given to the British Delegate to inform the Conference that “ Her Majesty's Government cannot undertake to propose the adoption of the principle of a double standard of value in the United Kingdom.” In a telegram from the Viceroy of the 18th May in that year (page 20, *idem*), the Government of India apparently disavow any bimetallic proposals, and confine themselves to suggesting certain arrangements which might be adopted for the purpose of giving stability to the price of silver. On the 10th June the Government of India wrote a Despatch containing certain suggestions on the subject, the most important of which was that India might properly join the proposed bimetallic Union if a sufficiently large number of other States did the same. From this, however, the Viceroy (Lord Ripon) and General Wilson dissented, as implying an acceptance of the bimetallic theory (*idem*, pages 33 and foll.). On the 8th September, Lord Hartington, then Secretary of State for India, advertin_g to this Despatch, gave no countenance to the bimetallic view, and confined himself to supporting the conditions as agreed to by the English Delegates at the Conference (*idem*, page 39), of which the only one for which India was responsible was the undertaking to coin silver freely in that country for a term of years, and to continue it as the legal tender to an unlimited extent if such an offer would facilitate the union of other nations in an agreement to allow free coinage of silver. The results of the Conference are summed up in Mr. Fremantle's Report of the 2nd December 1881 (House of Commons Paper 221 of 1882), in which the views of Her Majesty's Government are clearly stated (page 7) :—

“ It has been the policy of this country to emancipate commercial transactions as far as possible from legal control, and to impose no unnecessary restrictions upon the interchange of commodities. To fix the relative value of gold and silver by law would be to enter upon a course directly at variance with this principle, and would be regarded as an arbitrary interference with a natural law, not justified by any pressing necessity. England would not herself take the initiative in making changes which would have the effect of disturbing a monetary system under which she has enjoyed much prosperity, and which has generally commended itself to public men of all parties. Before being called on to abandon her present monetary policy, she should be put in possession of the views deliberately adopted by a consensus of important States, and should be able to consider them in the light of her own experience and interests. To such a statement of views Her Majesty's Government have more than once expressed their willingness to give respectful attention.”

14. Since 1881 nothing seems to have occurred which should alter the views of the English Government or the Treasury, as expressed at various periods, on this question. My Lords are most anxious to consult the interests of India in this matter, and to do all in their power to promote them. But they must, first of all, be satisfied what those interests really are. It has been shown above that the arguments do not lie all on one side ; that though the loss to the Indian revenue from the fall in the value of silver may be



considerable, and that much inconvenience may be caused to persons, like the English officials in India, who have to remit money to England, yet, on the other hand, in the opinion of persons best calculated to form a judgment on the subject, great countervailing advantages have accrued to the trade and the people of India. My Lords would require much fuller information from this point of view than is to be found in the Despatches of the Indian Government before they could arrive at the conclusion, that upon a balance the alteration in the gold price of silver has been a disadvantage to the Indian community, or that an attempt to interfere with the natural operation of economic laws would result in solid benefit to the vast population for whose welfare we are responsible. On the contrary, it is possible that an attempt to raise the price of silver might produce very disastrous effects upon the new developments of the export trade of India.

15. There are other causes which have much more obviously and certainly conduced to the financial difficulties of India than the fall in the price of silver, which, indeed, as Mr. Barbour has pointed out, has been accompanied by, if it has not caused, a remarkable growth of the trade and the revenue of India in the most recent years. As has been already shown, the growth of revenue, taking into account the remissions of taxation within the same period, has been very large, but the principal element which has determined the unfavourable condition of Indian finance, referred to in the Despatch of the Government of India, is the alarming growth of the expenditure. The observation of the Treasury in 1879, "that nothing is said about reduction of expenditure," seems to apply still more strongly to the existing situation, and it may be safely concluded that the control of its expenditure is far more within the reach of a Government than is the regulation of the market value of the precious metals.

16. It is obvious that Her Majesty's Government could take no measures for summoning or co-operating in a new Monetary Conference until they had previously determined what policy they should initiate or could assent to. The whole subject is understood to be under the consideration of the Royal Commission on the Depression of Trade; but my Lords can find nothing in the correspondence and information before them which should induce them to depart from the instructions given to the representatives of this country at the Conference of 1881.

From J. A. GODLEY, Esq., Under Secretary of State for India, to the Secretary, Treasury, dated 7th July 1886.

I am directed by the Secretary of State for India in Council to acknowledge the receipt of your letter of the 31st of May, on the subject of the urgent request of the Government of India that a determined effort should be made to settle the silver question by international agreement.

You observe that since 1881 nothing seems to have occurred which should alter the views of the English Government or the Treasury, as expressed at various periods, on this question; that their Lordships are not convinced that upon a balance the alteration in the gold price of silver has been a disadvantage to the Indian community; on the contrary, they think it possible that an attempt to raise the price of silver might produce very disastrous effects upon the new developments of the export trade of India. They are further of opinion that the principal element which has determined the unfavourable condition of Indian finance is the alarming growth of the expenditure; and they



add that it is obvious that Her Majesty's Government could take no measures for summoning or co-operating in a new Monetary Conference until they had previously determined what policy they should initiate or could assent to; they are unable, however, to find anything in the correspondence and information before them which should induce them to depart from the instructions given to the representative of this country at the Conference of 1881.

The Secretary of State in Council must not be understood as admitting that the application made in my letter of the 26th of January is accurately described as an "attempt to raise the price of silver," or that "the principal element which has determined the unfavourable condition of Indian finance is the alarming growth of the expenditure," other than the extra expenditure resulting from the fall of exchange.

His Lordship, however, considers that no good result is to be anticipated from a discussion of this subject between two Departments of Her Majesty's Government; and, as you state that the whole matter is understood to be under the notice of the Royal Commission on the Depression of Trade, he trusts that another opportunity will be afforded, at an early date, for the consideration of this important question, in which the Government of India have so great an interest.



XLII.

DESPATCH FROM THE GOVERNMENT OF INDIA, TO THE SECRETARY OF STATE FOR INDIA, No. 277, DATED 4TH SEPTEMBER 1886.

We have the honour to acknowledge receipt of Lord Kimberley's Financial Despatch No. 194, dated 8th July 1886, forwarding a copy of correspondence with the Treasury on the subject of the settlement of the exchange question by international agreement.

2. In our Despatch No. 45, dated 2nd February 1886, we pressed upon Lord Randolph Churchill the extreme importance in the interests of our Government of settling the silver question by international agreement, and we observe with much satisfaction that in Mr. Godley's letter of 26th January 1886, addressed to the Lords Commissioners of Her Majesty's Treasury, the Secretary of State for India in Council stated that he could not avoid "the conclusion that it is imperatively necessary to make every effort to find some remedial measure which will relieve the Government of India from the position in which it is now placed," and that "the comparative stability of the relative value of gold and silver" was "essential for the regular course of trade" and "of vital importance to India." The Lords Commissioners of Her Majesty's Treasury replied, in Mr. Fowler's letter of 31st May 1886, to our proposals and to the communications made by the Secretary of State for India in Council, that they could take no measures for summoning, or co-operating in, a new Monetary Conference until they had previously determined what policy they should initiate, or could assent to; that the whole question was understood to be under the consideration of the Royal Commission on the Depression of Trade; and that there was nothing in the correspondence and information before the Lords Commissioners which should induce them to depart from the instructions given to the Representative of England at the Monetary Conference of 1881. The instructions given to the English Delegate at that Conference were to the effect that "he would assist at the meetings of the Conference solely in order to be a medium of communication, and to afford information which the Conference may require, but with no power of voting."

3. We observe that Your Lordship's predecessor did not propose to continue at present the discussion of this important matter with the Treasury. We have no wish to question the expediency of this decision; but, in view of the probability of the subject being again taken into consideration, in compliance with the recommendations of the Royal Commission now inquiring into the causes of the depression in trade, we think it of importance to acquaint Your Lordship with our views on the main points raised in the letter from the Lords Commissioners of Her Majesty's Treasury, dated 31st May 1886. We cannot, meanwhile, in view of the experience gained since 1881, and of the grave importance of the question, avoid expressing disappointment at learning that Her Majesty's Government proposes to adhere to a purely passive attitude, and that the Government of India is to meet its pressing financial difficulties unaided, or with such assistance as it may derive from the action of foreign nations. We trust that this decision is not irrevocable, and that the result of the deliberations of the Royal Commission, which we hope will be appointed for the special purpose of examining the silver question, may be to disclose some method of relief for our finances which will, at the same time, be acceptable to Her Majesty's Government.



4. We understand the grounds on which the Lords Commissioners of Her Majesty's Treasury decline to take any steps at present towards a settlement of the silver question by international agreement to be as follows :—

Firstly, that it is doubtful whether it is possible to secure stability of value between gold and silver.

Secondly, that it is not proved that any measures which would raise the gold value of silver would on the whole be a gain to India.

Thirdly, that the arguments employed against the proposals made by the Government of India in 1878 have never been answered, and retain their full force.

Fourthly, that the difficulty can be met in great measure by reduction of expenditure.

Fifthly, that the Government of India has not distinctly stated the nature of the remedy which it proposes.

We propose to deal with these arguments in the order in which we have stated them.

Possibility of maintaining stability of relative value of gold and silver.

5. The Lords Commissioners remark that the question of the possibility of maintaining a fixed ratio between gold and silver is "one of the most disputable and disputed points in economic science," and they quote the declaration recorded by the representatives of Her Majesty's Government at the International Monetary Conference of 1878 that "the establishment of a fixed ratio between gold and silver is utterly impracticable."

We desire to observe that the establishment of a fixed ratio between gold and silver may be held, as in the words above used, to be utterly impracticable, either because it is theoretically impossible to devise measures which would have the desired effect, or because it is practically impossible to secure the adoption of these measures as the result of international agreement. If it is meant that it is theoretically impossible to secure stability of value between gold and silver, we cannot do more, within the limits of a despatch, than refer to the facts of the first seventy years of the present century, and to the numerous treatises in which the theoretical possibility of maintaining a fixed ratio has been demonstrated. But if, on the other hand, the Lords Commissioners refer to the practical difficulty of securing an international agreement on a sufficiently wide basis, we beg that reference be made to the proceedings of the Monetary Conference of 1881. The Conference of 1881 was held at the instance of France and the United States of America, and the following are the words of the Note forwarded by the United States Minister in London to Her Majesty's Secretary of State for Foreign Affairs :—

"The Government of the Republic of France and the Government of the United States having exchanged views upon the subject of a Conference between the Powers principally interested in the question of establishing internationally the use of gold and silver as bimetallic money, and securing fixity of relative value between these metals, and finding themselves in accord as to the usefulness and importance of such a Conference, and as to the time and place at which the same should be held, have the honour now to invite the Government of Great Britain to take part in a Conference, by such delegates as each Government may appoint, to be held at Paris on Tuesday, the 19th day of April next, to consider and adopt for presentation to the Governments so represented, for their acceptance, a plan and system for the establishment by international convention of the use of silver and gold as bimetallic money at a fixed relative value between these two metals."



France and the United States are the two nations whose influence, with the exception of that of England and India, would be the most powerful in maintaining the stability of the relative value of gold and silver; and the words of the note above quoted show in unmistakable terms that, whatever views may be elsewhere entertained, the Governments of those countries considered the establishment of a fixed ratio both practicable and expedient.

6. At the Conference the attitude of the Delegates, excluding those of France and the United States, was generally one of reserve, each country desiring to retain for itself complete liberty of action; but the Delegates of Holland and of Italy distinctly avowed their desire to see the free coinage of both gold and silver at a fixed ratio. M. Pierson, Delegate of Holland, observed: "The adoption of the bimetallic system is the only means of escaping from the annoying situation in which we are placed. That at least is the conclusion we have arrived at in Holland." M. Seismit-Doda, Delegate of Italy, observed: "The Italian delegates associated themselves fully with the declarations presented by Messrs. Denormandie and Cernuschi, as well as Sir Louis Mallet, on the subject of the necessity of raising the value of silver, and of establishing a fixed ratio between the two metals." The Delegate of Austro-Hungary, in view of the fact that the currency of that country consisted of inconvertible paper, was unwilling to adopt an attitude other than that of reserve; but nevertheless Count Kufstein declared: "Still they felt no hesitation in saying that as in the Conference of 1878, so for the future, their sympathy was with any measure which might be adopted with the aim of improving or re-establishing as much as possible the position of silver. They therefore hoped that the Conference would not separate without having adopted some remedy to obviate the inconveniences of the present monetary situation, which they believed in many ways to be a grave one."

7. As the attitude of Germany at the Conference is of special importance, we quote at some length the words of Baron Thielmann, the Delegate of that country: "We acknowledge, without reserve, that the rehabilitation of silver is desirable, and that it could be attained by the re-establishment of the full coinage of silver in a certain number of the most populous States represented at this Conference, which for this purpose would take as a basis a fixed proportion between the value of gold and that of silver. Nevertheless, Germany, whose monetary reform is already so far advanced, and whose general monetary situation does not seem to invite a change of system of such vast importance, does not find itself able to concede, as far as it is itself concerned, the full coinage of silver. Its delegates cannot therefore agree to such a proposal. The German Government is, on the other hand, entirely disposed to help as far as possible the efforts of the other powers which might be willing to unite, with a view to the rehabilitation of silver by means of a full coinage of this metal. To attain this end, and to guarantee these powers against the influx of German silver which they seem to dread, the German Government will impose some restrictions on itself." When Baron Thielmann was asked if the attitude of England had been the cause of the reserve shown by Germany, he replied "that the attitude of England had had some effect on the resolution of the German Government," as it was "necessary for the German Government to pursue a monetary system similar to that of England." There is, therefore, reason to believe that if Her Majesty's Government had shown a stronger desire to further the objects of the Conference, Germany would have been prepared to take steps in the same direction.



8. In view of the opinions expressed by France, the United States of America, Austro-Hungary, Italy, and Holland in favour of the establishment of a fixed ratio between gold and silver, and of the undoubtedly favourable attitude of Germany, and the evident inclination of that power to follow the lead of England, it appears to us reasonable to conclude that it was within the power of Her Majesty's Government at the Conference of 1881 to have secured the adoption of a fixed ratio; and as the evils due to the non-existence of a fixed ratio have manifested themselves in an aggravated degree since 1881, we may reasonably conclude that it is still within the power of Her Majesty's Government to secure this result, if willing to exert its influence for that purpose. Looking to the facts we have just stated, we are unable to admit the contention that the establishment of a fixed ratio is impossible because international agreement cannot be secured. It appears to us that if Her Majesty's Government abandoned the attitude of absolute reserve which they have so long maintained to the injury, as we believe, alike of England and India, there would remain no obstacle to the establishment of international agreement which could not be surmounted. Even allowing for the sake of argument that it should prove impossible to secure the establishment of a fixed ratio on a sufficiently wide basis to permanently maintain that ratio, we see no reason to doubt that the active and sympathetic intervention of Her Majesty's Government would secure the adoption of measures which would tend in that direction, and which would at any rate have the effect of mitigating existing evils, and of removing grave grounds of apprehension as regards the future.

9. In connection with the question of the possibility of maintaining a fixed ratio between the two metals, we further desire to observe that, in quoting the opinion of Mr. Goschen, Mr. Gibbs, and Sir Thomas Seecombe as recorded in 1878, the Lords Commissioners of Her Majesty's Treasury appear to have attached little weight to the extremely important facts that since the expression of opinion by the representatives of England in 1878, the evils of the unsettled state of the silver question have become greatly aggravated, that the question has been far more thoroughly discussed, and that both the origin of the disease and the nature of the remedy are better understood. It seems to us to be at least possible that if an opinion were obtained in 1886, it might differ from that given in 1878; and we know that in the case of one of the gentlemen cited, the opinion expressed in 1878 has been entirely repudiated.

10. We have no opportunity of ascertaining the views on this question which Sir Thomas Seecombe may now hold, nor are we aware whether Mr. Goschen considers the impracticability of establishing a fixed ratio as great as it appeared to be in 1878; but we observe that in 1878 Mr. Goschen concurred with the other representatives of England in holding "that a campaign undertaken against silver would be exceedingly dangerous, even for the countries which have given a position as legal tender only to gold." Again, in a speech "on the condition and prospects of trade" delivered by Mr. Goschen at Manchester on 23rd June 1885, we find him reported to have expressed himself as follows:—

"Now let me take the silver question. It is impossible to embark upon that or upon the appreciation of gold in a satisfactory manner in a few sentences, because it would take a whole speech to itself. But there is one point connected with the silver question which I will touch, and it is the insecurity which it imparts to trade with the silver-using countries. That must affect your dealings with India and with others, and I am sorry to think that with regard to that insecurity there is no hope till you know what the



United States will do with respect to the Bland Bill. It seems to me that we must almost conclude that the uncertainty in the trade of the silver-using countries will increase, and that the position in that respect must get worse; and I do not hold with those who think that this country has little interest in the question because we are a creditor country. This is an argument which is often put forward that we are a creditor country, and that as amounts are due to us in gold, therefore the more gold will command for commodities the better for this country. But we are not all creditors; and though we may in the balance be a creditor country, there is an enormous interest in our trade with the silver-using countries; and so I trust that this silver question will fairly be kept in view by those who are responsible for our Indian Empire. It is a question of the deepest interest. As I have said, it is impossible for me at this moment to expatiate upon the subject; but I must submit that is a factor in the case, and a very important factor too."

Finally, we find from Hansard (3rd series, vol. ccciii, page 1491) that during the late session of Parliament, Mr. Goschen addressed the following question to the Chancellor of the Exchequer:--

"Whether, in view of the deep and increasing interest shown in various parts of the country on the silver question, he will consider the expediency of separating this urgent subject from the other matters referred to the Royal Commission on the Depression of Trade, and of appointing a separate Commission to inquire into the position of silver, the condition of the currency, and the various plans of utilizing silver to a greater extent for currency purposes."

We believe, in view of the above extracts, that we are justified in coming to the conclusion that, whether or no Mr. Goschen believes in the practicability of establishing a fixed ratio between gold and silver, he at any rate considers the silver question to be one of great importance, and is anxious that measures should be taken to utilise silver to a greater extent for purposes of currency.

Mr. Gibbs has entirely altered his opinion since 1878: is now of opinion that the establishment of a fixed ratio is not merely practicable, but in itself highly desirable: and for some considerable period has himself been President of the Bimetallic League. We are at a loss to understand how the change in Mr. Gibbs' views since 1878, which his writings on the subject have rendered matter of much notoriety, should, as would seem to be the case, have escaped the knowledge of the Lords Commissioners of Her Majesty's Treasury.

Question of gain or loss to India from the fall in the rate of exchange.

11. With regard to the question whether India has obtained any such advantages from the fall in exchange as wholly or in part to compensate her for the undoubted injury which the fall inflicts, and specially for the loss on the gold remittances of the Government of India, we would observe that this is a matter on which opinion is by no means unanimous. The fall in the rate of exchange has coincided in point of time with a large development of Indian trade and a steady increase of Indian revenue; but many authorities hold that this growth of trade and revenue is due to a succession of several good harvests, to the increased energy shewn of late years in the construction of railways in India, to the cheapening of the cost of sea transport, and to the opening of the Suez Canal rather than to the fall in exchange. The question has been recently examined in a paper entitled "Indian Trade and Exchange," prepared by the Assistant Secretary in our Financial Department, copies of which have been forwarded for Your Lordship's information; and the considerations therein set forth materially assist in enabling a judgment to be formed upon this important matter. It is beyond question that the



instability in the relative value of gold and silver discourages the investment of capital in India; and the higher rate of interest which we should have to pay for silver loans forces us to borrow in gold, and to accept the risk of a still further appreciation of that metal. The variations in exchange introduce great uncertainty in that large class of commercial transactions in which the element of time is involved. The fall in silver, by throwing unexpectedly a heavy burden on our finances, has more than once compelled us to defer the construction of public works intended for the protection of the country against famine, and has led to regrettable and wasteful fluctuations in our Public Works policy. These are evils of great magnitude; and if we take into consideration also the direct accumulating increase to the public expenditure due to the fall in exchange, it is, to say the least, difficult to contend that India as a whole may have gained as much as she has lost. It has no doubt been argued that the fall in exchange by encouraging Indian exports has given a stimulus to industries in which India competes with countries that have a gold standard; but, apart from the results of recent enquiry into this part of the subject which we have above alluded to, we have been unable to discover that the silver prices of Indian exports, or Indian commodities generally, have risen since the fall in the rate of exchange, and there are good grounds for believing that the effect of the change that of late years has taken place in the relative value of silver and gold has been to lower gold prices and not to raise silver prices. Apart from this aspect of the question, it further appears to us that the Lords Commissioners of Her Majesty's Treasury have failed to notice that those persons who are of opinion that India has gained by the fall in exchange hold, as an essential part of the same opinion, that England and all other countries with a gold standard have lost in an exactly equal degree. They argue that the rupture of the old ratio of 1 to 15½ between the two metals has led to a reduced supply of metallic money to countries with a gold standard, and an increased supply, of an exactly equivalent amount, to countries with a silver standard; and if the increased supply has been a gain to the silver countries, it follows that the reduced supply must have proved injurious to countries with a gold standard by causing a general fall in the prices of commodities.

12. The Lords Commissioners quote, with seeming approval, the opinion of Mr. Barbour, our Financial Secretary, on the question of the gain or loss to India; but we observed that they have omitted to refer to the passages in which Mr. Barbour states that the gain of the silver countries is balanced by a corresponding degree of loss on the part of the gold countries. The following extracts from the preface to the book quoted from show what Mr. Barbour's opinion is on this point:—

"This fall in prices has been aggravated in countries using the gold standard, and checked, or altogether obviated, in countries using the silver standard, by the partial demonetisation of silver. In so far as this has been the case, the silver countries have unquestionably gained, while the gold countries have lost." * * * * *

"Every fall in the gold price of silver will be followed by a corresponding decline in the gold prices of commodities, by increased disinclination of capitalists in London to invest money in India, by a reduction of profits, and a general increase of the burden of obligation already contracted in England."

These passages make it clear that the theory of gain to India by the fall in exchange is based on the belief that countries with a gold standard have lost in an equal degree; and that, in short, the gain of the silver countries arises from a species of protection against countries with a gold standard. It is not possible to accept one-half of the theory, and to reject the other.



If the silver countries have gained by an increase of the supply of metallic money, the gold countries must have lost by an exactly equivalent reduction in the supply. We desire to lay special stress on this aspect of the case, because we find it stated that "England would not herself take the initiative in making changes which would have the effect of disturbing a monetary system under which she has enjoyed much prosperity," and no notice is taken of the fact that any special gain to India from the low exchange must have been attended with corresponding loss to England. In connection with the question of the prosperity which England may have enjoyed in former years under the gold standard, it should not be overlooked that up to 1873 England enjoyed the benefits of a comparatively stable ratio between her gold standard and the silver standard of other countries, and that since the wide departure from the old ratio occurred, the progress and prosperity of England have suffered a decided check. Without attempting to define the specific causes which have been in operation, we may observe that the prices of commodities have fallen very largely in England in recent years.

13. Even if, for the sake of argument, it be admitted that India, as a whole, has gained as much as she has lost by the fall in exchange, we are still of opinion that a change is imperatively required in the interests of the British Government in India. If the gain has just balanced the loss owing to the fall in exchange, we may reasonably conclude that in case of a rise in exchange, the loss would not on the whole exceed the gain, while the financial relief, and consequent political advantage, to our Government would be incalculable. This view of the matter was referred to by Sir Louis Mallet at the Conference of 1881 in the following words:—

"Although we may, no doubt, look forward in the future to some rearrangement of taxation when the depreciation of the coinage has produced its effect in a general rise of prices, and particularly in that of labour, we must wait a long time for that result; and meanwhile it would be impossible without serious political danger to propose new taxes based on considerations which the mass of the people would not be able to understand.

"But it is not only the actual loss which we have to think about; it is the absolute uncertainty which hangs about the future, and which prevents any serious or accurate calculation of the revenue and resources of Government."

These words have a special bearing on our present financial position. The recent renewal of instability, followed by a heavy fall in exchange, and maintained up to the present time, has rendered the most careful calculations we can make valueless. We have already imposed unpopular taxation, and we see before us the possibility of being compelled to have recourse to the imposition of further taxes, alike unpopular and injurious to the well-being of the community. The future is, if possible, even less assured than it was when Sir Louis Mallet spoke. Moreover, the rise in prices, owing to the depreciation of the silver currency, to which Sir Louis Mallet looked forward, has not taken place; the alteration in relative gold and silver prices, which must necessarily follow the alteration of the exchange, has taken the form of a fall in gold, and not of a rise in silver, prices. We cannot, therefore, count, within any reasonable time, on such a growth of revenue as will enable us to meet the burden thrown on our finances in recent years by the fall in exchange.

14. Putting aside, however, all matters of minor importance, we desire to observe that, in our judgment, the question of the establishment of a stable ratio between gold and silver must be decided on broader grounds than the gain or loss of a single country, and that it is a question of world-wide importance, the interest of England in securing a permanent settlement being no less than that of India. So far as regards the monetary standard, no



country is, or can be, independent of the action of other countries. Apart from the dislocation of trade and industry caused by variations in the rate of exchange between two standards not linked by a legal ratio, each country is at the mercy of others, which, by adopting or discarding the gold or silver standard, can seriously prejudice the interests of that country which makes no change in the standard. England has made no change in the standard since 1816; but the result of the more extended use of gold by foreign countries is certainly not less serious in its effect on the industries of England and the interests of the English people than in its effect on French and American industries and interests. The Government of India, like that of England, has made no change in the standard; yet the action of foreign nations has placed our finances in those perpetually recurring difficulties which are set forth in our Despatch of 2nd February last, and threatens them with even greater disasters in the immediate future. The question of the monetary standard appears, therefore, to us to be pre-eminently one for settlement by international agreement; in no other way can a satisfactory or permanent settlement be effected; and we trust that Her Majesty's Government will abandon their attitude of absolute isolation—an attitude which, we venture to think, is both indefensible in theory, and in practice fraught with danger both to England and to India.

Omission to answer the arguments employed against the proposals of 1878.

15. In 1878 the Government of Lord Lytton proposed that the coinage of rupees should be restricted, by means of a seignorage, in such manner as to raise the value of the rupee from 1s. 7d., the market rate of the day, to 2s.; and these proposals contemplated ultimately the introduction into India of a gold standard. The Lords Commissioners of Her Majesty's Treasury refer to this proposal, and express regret that in the Despatch of 2nd February last the Government of India has not replied to the arguments which led to its rejection, nor shown that it has now some scheme in view which is not open to similar objections. Great importance is evidently attached to this point, as in Mr. Fowler's letter of 31st May the arguments used against the proposals of 1878 are repeated, and it is added that "the Lords Commissioners find no reason stated in the Despatch of the Government of India in the present year which induces them to dissent from the conclusions thus set forth on the authority of Sir Stafford Northcote as to the results of any attempt to artificially enhance the gold price of silver." We confess to having read these remarks with surprise, as, for the reasons which follow, we can perceive no analogy whatever between the proposals of 1878 and those which we recently put forward.

16. The proposals made by the Government of India in 1878 involved the restriction of the coinage of rupees, a measure which, in our recent proposals, we have not advocated. The proposals of 1878 aimed at establishing a fixed ratio between gold and the coined rupee, which is a totally different matter from the establishment of a fixed ratio between gold and silver. The Government of 1878 proposed to establish between gold and the rupee the ratio of ten rupees equal to one pound sterling, while the proposal contained in our Despatch of 2nd February last merely involved the establishment of a stable ratio between gold and silver, and left the question of what that ratio should be for future discussion. The proposals of 1878 could have been carried out by legislation in India, and were entirely independent of international agreement; the essential feature of our present proposals is their dependence on



international agreement. The proposals of 1878 would not, as seems to be supposed, have raised the gold value of silver, but would, on the contrary, have tended very materially to reduce it. The arguments used against the measures advocated in 1878 have, therefore, no bearing on our recent proposals; and, as those measures lay outside the scope of the recommendations contained in our Despatch of February 2nd, we admit our inability to perceive why, in that Despatch, we should have been at the pain of answering them. The proposals contained in our Despatch of 2nd February did not necessarily involve the raising of the gold value of silver to the old ratio of $15\frac{1}{2}$ to 1. It was our intention that the question of the precise ratio to be adopted should be left for future discussion, and for settlement after full consideration of all the interests involved, and after ascertainment of the views of the principal nations interested in the matter. Even if a Conference should have decided on the adoption of the old ratio of $15\frac{1}{2}$ to 1, we cannot admit that the change could more accurately be described as one for raising the value of silver rather than as one for lowering the value of gold. The essential end to which our recent proposals were directed was the establishment of a stable ratio between silver and gold; and even if a higher ratio than the market ratio of the day had been adopted, the procedure which we advocate would have had as much effect in lowering gold as in raising silver. The scheme of 1878, on the other hand, would have materially lowered the value of silver, and must ultimately have had the effect of raising the value of gold by increasing the demand for it. We fail, as we have said, to perceive anything in common between the two proposals; and we conceive it unnecessary to remark further on this portion of the question.

Possibility of relieving the finances by reduction of expenditure,

17. In paragraph 15 of Mr. Fowler's letter, our attention is directed to the importance of the reduction of expenditure, and it is added that the principal element which has determined the unfavourable condition of Indian finance, and which has conduced to our difficulties more obviously and certainly than the fall in the price of silver, is the alarming growth of expenditure. The general question of the growth of expenditure on the civil administration of India was dealt with very fully in the Despatch from Lord Ripon's Government, No. 233, dated 24th August 1883,* and in the Minute* by Sir Evelyn Baring, which accompanied, as well as in other correspondence which took place about the same time, and which was published as a Parliamentary blue-book in August 1885. We can add nothing to what is contained in the correspondence in question, beyond remarking that our financial difficulties since that date have forced us to scrutinise very narrowly all proposals for incurring additional expenditure, and that we have been compelled to put aside many valuable reforms simply because we could not find the means to carry them out. We do not know to what facts the Lords Commissioners of Her Majesty's Treasury more particularly desire to draw attention when they speak of the alarming growth of expenditure. The fall in silver has no doubt added largely to expenditure on account of exchange, and we have been obliged to incur expenditure in the construction of Famine Railways, which do not, for the present at any rate, return a profit sufficient to cover interest on capital. The same remarks hold good in regard to the expenditure on Frontier Railways and Coast Defences, while the events that have occurred in recent years beyond the North-West Frontier have compelled us to increase the Army, both European and Native. Her Majesty's

* Not printed in this volume.



Government, we believe, concur with the Government of India in the necessity of measures calculated to minimise the risk of such loss of life as occurred in the Madras famine, and to guard against external attack on the North-West Frontier of India. So long as the adequate protection of India against the consequences of war and famine is an essential portion of the policy of Her Majesty's Government, it is premature to object to the expenditure which the attainment of these ends necessarily for a limited time involves.

18. With the exception of the expenditure referred to in the preceding paragraph, which was incurred deliberately and with a full knowledge of the burden it would impose on the country, and which we should gladly have avoided if we could safely have done so, we are not aware of any great growth of expenditure in recent years. The measures taken in 1881 to provide an insurance against the financial effects of famine have, no doubt, added nominally £1,500,000 (conventional sterling) to the expenditure; but this was, as those conversant with Indian finance are aware, a measure of economy, and this item of £1,500,000 is of the nature of a reserve or insurance fund. Possibly the fact may have been overlooked that the Government of India is now a very large Railway proprietor, and that the opening of new Railways necessarily involves an addition to the yearly expenditure of the total amount of the working expenses of the Railways. This expenditure cannot, however, be avoided; it brings in corresponding revenue, and can in no sense be treated as an addition to the cost of government, properly so called. The danger of misunderstanding arising from this cause was alluded to in our Despatch No. 331, dated 1st December 1885, in the following terms: "The rapid increase and great complexity of the Railway transactions make it very inconvenient to embody them in Finance Accounts, and the apparent increase of revenue at the disposal of Government as new lines are opened and corresponding apparent increase of cost of governing the country give rise to mistaken idea of the increasing income and extravagance of the Government." But whatever the origin of the remarks regarding the growth of expenditure may be, we must be allowed, with all deference, to maintain that we have by no means been forgetful of the relief to the finances which can be obtained by reduction of expenditure; the fall in the gold value of silver has more than once led to reductions of expenditure, which have caused serious administrative inconvenience; and we are at the present time engaged in making every reduction which is reasonably or safely practicable, though there is no hope that any economies we may be able to effect will do more than cover a fraction of the additional burden imposed on India by the recent fall in exchange.

19. In order that there may be no room for misunderstanding as to the serious effect which the fall in exchange has had on the course of Indian administration, and of the repeated efforts which have been made to meet the additional expenditure therein involved by reduction of expenditure, we will briefly review the facts of the last 10 years. In the Financial Statement for 1876-77 Sir William Muir remarked as follows:—

"The sudden depreciation of silver, and the consequent enhancement of charge to the Government of India in laying down yearly the sum required in England of about fifteen millions sterling, without doubt, cast a grave shadow on the future. In truth, it may be said that the danger, from whatever point of view considered, is the gravest which has yet threatened the finances of India. War, famine, and drought have often inflicted losses on the Exchequer far greater than the charge which threatens us in the present year. But such calamities pass away: the loss is known and limited; and when it has been provided for, the finances again stand on sure and stable ground. This is not the case with the present



cause of anxiety. Its immediate effects are serious enough, as has already been shown. But that which adds significance to it is, that the end cannot be seen; the future is involved in uncertainty."

As a consequence of the position in which the Government found itself owing to the fall in exchange, measures were taken in July 1876 for the effective curtailment of expenditure on Extraordinary Public Works, and at the same time all outlay of public money on the ordinary civil administration was stopped "which is not absolutely necessary, or to which the Government is not committed, or the discontinuance of which will not cost disproportionate loss and waste."

20. In November 1878 measures were again taken "for the reduction of the ordinary expenditure of the country within the narrowest limits," but these measures were based on the probability of heavy war expenditure, as well as on the fall in exchange. The orders given in November 1878 were followed up in May 1879 with equally stringent orders for still further reduction of expenditure in all branches of the administration. The contracts with Provincial Governments were temporarily set aside, and contributions obtained from them to help to tide the Government of India over its immediate difficulties. The result of the measures taken involved a reduction of £758,000 in ordinary expenditure, as well as the reduction of Productive Public Works expenditure by £1,000,000 yearly, although the estimated expenditure of 1879-80 was already £1,000,000 below the average expenditure of the two preceding years.

In June of the same year the following language was used: "Rigid economy in every branch of the public service is in present circumstances the policy which must be followed. To quote again the words of the Resolution of the 1st May:—

"Unless positive necessity exists, no improvements in administration, however desirable, must be undertaken if they involve increased charges; no fresh establishments must be entertained; no new offices must be created; no new works, which it is possible to postpone, must be commenced.

"It is through this policy of retrenchment and economy that the necessity for fresh taxation has for the present been avoided; and if the fall in the value of silver in relation to gold should further increase, strict adherence to that policy will be more than ever essential."

The language used by Lord Lytton's Government in their Despatch No. 138, dated 22nd May 1879,* shows how great must have been the pressure which compelled them to have recourse to such reductions:—

"We do not propose in this Despatch to discuss the circumstances which have rendered it necessary to undertake these reductions in the expenditure on Public Works in India. The result will undoubtedly be that the material progress of the country will be seriously retarded and we in no way disguise from ourselves the injury which India will sustain, or the discredit which will be entailed on the Government, by even the temporary abandonment of a policy which we are satisfied is essentially wise, and which in spite of many errors has been on the whole attended with eminent success. The measures which we now take with so much regret have been forced upon us by circumstances over which we have no control, and for which our Government is in no degree responsible."

21. From 1879-80 the rate of exchange remained nearly constant for some years, the average rate obtained for home remittances having been as follows:—

	d.
1879-80	19.96
1880-81	19.95
1881-82	19.89

* Not printed in this volume.