The surplus revenue, which was found to exist in the beginning of 1882-83, was used, not for the increase of expenditure, but for the reduction of taxation, including the removal of the general import duties.

After 1881-82 the course of exchange was steadily downwards, and in 1883 the question of reduction of expenditure having been brought before, and impressed upon, the Government of India by the Secretary of State for India in Council, the matter was exhaustively considered, as will be seen from the correspondence referred to in paragraph 17 of this Despatch.

In 1885 stringent measures were taken for the reduction of expenditure in consequence of the probability of a war with Russia; and in order to meet the cost of military preparations, reductions were effected in the sanctioned expenditure of 1885-86 to the extent of over £1,500,000 (conventional sterling). As regards the current year, we may observe that at the time of framing the estimates our financial difficulties were seen to be so great, that every effort was made to keep down expenditure, and the extreme measure was adopted of withdrawing the sum of £400,000 from Local Governments, and consequently of reducing the possible Provincial expenditure by that amount. In February 1886 a Committee was appointed with the special object of effecting reductions of expenditure, and is at present earnestly prosecuting enquiries directed to this end. The language used in the orders appointing the Committee indicate the anxiety with which we have sought economy in the hope of avoiding taxation.

"The circumstances in which the Government now finds itself placed compel it to examine with renewed and anxious attention the possibilities of such an effective decrease in its expenditure as shall in a sensible degree contribute to relieve it of the financial embarassments with which it is threatened. The uncertainty which prevails regarding the future relative value of gold and silver compels the Government to contract, so far as is possible, expenditure which in other circumstances may have been desirable or necessary, but which at present it can no longer maintain."

22. The sketch which has been given of the financial history of the last ten years is sufficient to show that the Government of India has been very far from unmindful of the relief to the finances which may be obtained by economy and reduction of expenditure; it demonstrates, on the contrary, that such relief has frequently been secured at the cost of great detriment to the administration. We are at present again seeking to effect all possible economies in the cost of civil administration, and we hope in this way to secure an improvement to the extent of at least £500,000 yearly. How insufficient this relief may prove in comparison with the burden thrown on the finances by the fall in exchange, will be seen from the fact that, though the rate of exchange for the estimates of 1886-87 was taken at only 1*s.* 6*d.* per rupee, we have at present to contemplate the possibility of taking a rate as low as 1*s.* 4*d.* per rupee in the estimates of 1887-88—a fall which would impose an additional yearly burden on our revenues of more than £2,000,000 (conventional sterling).

Looking to the facts which we have stated, we are compelled to arrive at the conclusion which admits, in truth, of little dispute, that further reduction of expenditure is unlikely to give us financial relief in any degree commensurate with the magnitude of our difficulties; and that the contention that the alarming growth of expenditure in late years is the principal element in the unfavourable condition of Indian finances will not stand the test of examination.

*Nature of the remedy proposed.*

23. With regard to the complaint that we have not definitely indicated the nature of the international agreement which should supply the solution of the silver question, we desire to observe that it appeared to us that we stated with sufficient plainness that the end to be aimed at was a stable ratio between gold and silver, and that the means for the attainment of this end was an international agreement between the countries interested in the question. We did not specify the exact ratio which we wished to see established, nor the precise nature of the agreement, because we felt that on both these points it would be necessary to ascertain and take into account the views of foreign powers, and that any attempt on our part to lay down the exact terms of the settlement at the outset might have a prejudicial effect on the negotiations. If Her Majesty's Government had been willing, under any circumstances, to recommend the opening of negotiations, there would have been no difficulty in obtaining a more definite expression of our views by telegram. Your Lordship will, moreover, not have forgotten that on May 29th* of the present year, while we were still awaiting the reply of the Lords of the Treasury, we submitted specific proposals, which were only not laid before the Lords of the Treasury because their letter was received by Your Lordship's predecessor very shortly after the recommendations we refer to reached him. What we consider essential in the interests of the finances of British India is the establishment of stability in the relative value of gold and silver, and the removal of the danger which hangs over the silver market from the existence of large quantities of overvalued silver money in the currencies of France, the United States, and other countries. For the attainment of these ends, we propose generally the utilisation of silver as currency to a greater extent than is the case at present, as well as an international agreement for the free coinage of silver, and the making of both gold and silver coin a legal tender at a fixed ratio by a group of nations possessed of a metallic currency of sufficient extent to maintain that ratio permanently. The question of the ratio to be established is one which must be decided by the nations which undertake to coin both gold and silver freely, and it should be a ratio not lower than the average market ratio of recent years, and not higher than the former French ratio of 1 to 15½. So great is the importance which we attach to stability of relative value, that we do not consider that there would be sufficient grounds for objecting in the interests of India to any ratio, within the limits above indicated, which might be approved by the other nations concerned; and on behalf of India, we would be willing to undertake either to maintain the present silver standard, or to coin both silver and gold for all comers at the fixed ratio. It does not appear that any plainer expression of our views, or any proposals of a more specific nature, could be expected, or should be required, at the present stage.

24. In conclusion, we desire again to express our conviction of the importance, in the interests of British rule in India, of securing a speedy and final settlement of the silver question. In our Despatch of 2nd February last, we stated, in the clearest terms, but not, as we consider, more strongly than the occasion required, the nature and extent of the difficulties and dangers to which India is exposed in the present state of the silver question, and we need not repeat our observations. The immediate cause of future disturbance which we specially took into consideration at that time was the possibility of

* This was in a telegram not printed in this volume.

the repeal of the Bland Act by America. Since the date of our Despatch, although there is every prospect that America will, for the present at least, continue the coinage of silver, the rate of exchange has fallen 1¾d. per rupee. The additional burden thrown on our finances by this fall of 1¾d. in the gold value of the rupee, after all allowance made for any possible set-off, amounts to at least £1,750,000 (conventional sterling) yearly, and it is quite possible that the repeal of the Bland Act by America might increase the burden by an equal amount. We cannot hope to cover more than a fraction of the amount already added to our expenditure through the recent fall in silver by any economies in the cost of the administration which we may be able to effect. Even though the measures which we are now carrying out for the defence of the country against war and famine should, in view of our pressing financial difficulties, be curtailed, further taxation appears at present to be inevitable; and when we have again established equilibrium, there is no prospect that the settlement will be final, or even reasonably permanent. A rise in the rate of exchange may prove that unpopular measures of taxation have been undertaken unnecessarily; a fall may force us to impose further taxation. Meanwhile the pressure of our present difficulties is compelling us to use resources which we relied upon as a reserve to meet the cost of possible war or famine. Above all, our finances will still remain subject to the special uncertainty due to the unsettled condition of the American currency. Your Lordship is aware that a powerful party in the United States of America presses for the stoppage of the coinage of silver. If that course should be adopted in the immediate future, our financial difficulties threaten to be greater than any which the Government of India has hitherto experienced. We do not therefore hesitate emphatically to repeat that, from the point of view of Indian finance, the position has become intolerable.

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# XLIII.

## Memorandum by Lieutenant-General R. Strachey, C.S.I., dated 31st March, 1886.

The Secretary of State for India, in his letter to the Treasury, dated 26th January, 1886, has declared "that it is imperatively necessary to make every effort to find some remedial measures which shall release the Government of India from the position in which it is now placed" by the changes which have taken place, and appear to be still likely to take place, in the relative values of gold and silver, operating through the different currencies of England and India.

2. As the Indian Mints are, under the existing law, open for the unlimited coinage of silver, it is apparent that, so long as this is the case, the exchange value of the rupee reckoned in gold cannot fail to stand very nearly at the amount in gold currency which will buy, carry to India, and pass through the Mint the quantity of silver which, according to law, the rupee must contain. Consequently the fall of the exchange which has caused the present difficulties in India can be arrested only in one of two ways, that is, either by the cessation of the fall of the relative value of silver to gold in the world generally, or through the adoption of a gold standard by the suitable regulation of the coinage of silver in India.

3. Now as to the first of these alternatives, it is obvious that the production of silver and gold is beyond external control; the existing conditions of the production and demand for the two metals has led to the relative depreciation of silver, and the only manner in which this depreciation can be checked is by increasing the relative demand for silver, which, there is reason to think, can only be done sufficiently by reviving the free coinage of silver to an extent approaching that which prevailed before the recent fall in its value in relation to gold began. This again, it is generally considered, can only be brought about by international agreement, and it is to press upon Her Majesty's Government the importance of endeavouring to obtain this solution of the difficulty that the letter to the Treasury above referred to has been written, the necessary steps for attempting it lying beyond the sphere of action of the Indian Government.

4. Unfortunately, all the attempts hitherto made by the nations which alone have the power of giving effect to this solution have failed. India, having no gold coinage, has no such power nor can she otherwise co-operate in the matter than by retaining her existing silver currency; neither has she any motive for desiring to change that currency, unless driven to do so, in self-defence, in order to escape from the intolerable position in which she is now placed by the continued fall of the value of silver in relation to gold.

5. The experience of the last eight or ten years has made it clear that relief cannot reasonably be expected under a policy of inaction, and hence the Government is bound to consider what may best be done if the needful remedy cannot be obtained by acting on the relative value of silver to gold, through international agreement or otherwise, and the Secretary of State in Council, in this view, has announced that he reserves for consideration "how far it may be advisable to meet the exigencies of the case by action falling within the competency of the Government of India."

It is not the design of this paper to enter on any discussion of the many difficult questions that are raised by a general inquiry into the causes and effects of the recent changes in the relative values of the precious metals, or the possible means of restoring their former valuation, or of otherwise remedying any evils which those changes may have produced or are likely to produce in the future. These questions could only be usefully dealt with, so far as the practical action of Great Britain in relation to them is concerned, under the authority of Her Majesty's Government; and it is in view of the not improbable failure of relief in this direction, that I propose to treat the subject exclusively with reference to the administrative necessities, obligations, and powers of the Government of India.

6. The question, therefore, will now be considered how far the second alternative, namely, the adoption of a gold standard by the suitable regulation of the coinage of silver in India, is practicable or expedient.

7. It may at once be freely admitted that it is a very extreme measure to interfere with an established currency, and that nothing but extreme urgency can justify it. Therefore, before taking any step in this direction, a very careful examination is necessary of the relative gravity of those evils which on the one hand any suggested change is likely to produce, and on the other of those which will arise if no change is made.

8. A summary statement of this last class of evils will be found in the letter to the Treasury before referred to, to which and to the many representations of the Government of India on the subject reference should be made for more full details. Briefly, it is contended that India is now in a position in which the continued fall of the exchange value of the rupee must lead to additional charges which cannot be met without continually increasing taxation, the necessity for which, by reason of the peculiar habits of the people and of their impatience of change and of new forms of taxation, as well as of the character of the Government, would constitute a political danger of the utmost gravity; while, otherwise, the same cause places serious obstacles in the way of the investment of capital in India, and thus arrests progress, which is alike of vital importance to the prosperity of India and England. In the estimation of those responsible for the government of India there can be no question more serious than how to guard against these evils, and hardly any sacrifice which should not be accepted to ensure protection from them.

9. Whether or not it may be possible to find, through a modification of the currency of India, a remedy which will be less productive of evil than inaction, is what I now propose to discuss.

10. The evils to be dealt with arising wholly from the different standards of the currencies of England and India, the remedy must be sought in some arrangement which shall link the currencies, or, in other words, by the adoption of a common standard, which again evidently involves the acceptance, in some form, of a gold standard by India.

11. In India at present gold is not a legal tender; there is no current gold money, and there has been none almost from the commencement of the century, and it would be clearly impracticable, from a purely Indian point of view, to replace the existing silver standard currency with a gold standard currency based on a gold coinage, leaving the silver coinage to assume a subsidiary place. There are, however, other cogent reasons for setting aside altogether any suggestion to introduce a gold coinage in India, in any form, in present circumstances. To do this could hardly fail to aggravate the fall of

prices measured in gold which is going on, and which is generally believed to be due to the appreciation of gold by reason of its comparative scarcity in relation to other commodities, of which silver is only one. Moreover, a gold coinage could not be introduced without at the same time fixing its relative value to the existing rupee coinage, which could not be rated at anything sensibly different from its present exchange or bullion value ; and this would render any readjustment of the values of the gold and silver coins in the future, if not impossible, at least extremely difficult, and would diminish greatly, or extinguish, all hope of any international arrangement of the values of the two metals for currency purposes, such as might supply a satisfactory remedy.

12. The problem therefore becomes restricted to giving India a gold standard of value without discontinuing the existing silver coinage or interfering with the general system of currency, and without introducing a gold coinage. For its proper solution provision should at the same time be made for the automatic expansion of the currency to meet the requirements of trade, and precautions should be taken against inflation from arbitrary action on the part of the Government. Moreover, the aim should be the prevention of the further fall of the exchange value of the rupee, not the forced rise of this value ; and security should be obtained against inconvenience from any future possible rise in the relative value of silver to gold, and for a return to the free coinage of silver when the relative values of the two metals rendered it possible.

13. I believe that all these conditions could be complied with in the following manner.

The Government should be authorised by the Secretary of State in Council to take legislative power to suspend that part of the existing law (The Indian Coinage Act, XXIII of 1870) which requires the Mints to coin all silver brought to them ; but this power should be exercised subject to the provision that, so long as the Mints were thus closed against the unlimited tender of silver, they would be open to the tender of gold, a stated maximum number of rupees (say 13) of the present standard of fineness and weight, which would remain unchanged, being given in exchange for the quantity of gold contained in a sovereign. The gold would not be coined, and would merely serve as a medium by which to measure the future cost of the rupee ; so much of it would be sold, or exchanged for silver bullion, as would supply the quantity of silver required for the coinage of the requisite number of rupees to be given in exchange at the fixed rate, and the residue would be retained by the Mint, and virtually be a charge of the nature of seigniorage. Power should be given to revoke the suspension, and then the free coinage of silver on the original basis would be revived. Consequently the Mint would always be open either to gold or silver ; in the former case a fixed number of rupees in silver being given by the Mint in exchange for a fixed weight of gold, silver not being accepted for coinage ; in the latter a rupee being given, as at present, for a fixed weight of silver, and gold being then no longer received.

14. The number of rupees above named, 13, represents approximately the equivalent of one sovereign in rupee currency at the exchange of 1*s.* 6*d.* Consequently, after the application of the proposed power additions to the rupee currency could not be made at a less cost, measured in gold, than 1*s.* 6*d.* per rupee, and the exchange could not fall materially below that rate. This rate has been assumed as representing that below which the rupee

has not yet fallen permanently or for a prolonged period, the intention being to accept the actual rate at the time the change is made, *above* which no attempt would be made to force the exchange, but *below* which it should be prevented from falling.

15. In this manner, and by permitting some margin of delay in carrying out the change, to cover cases of bargains for the delivery of silver previously made, there need be no unfair interference with vested interests. The doctrine that because a metal has once been adopted as the standard for the currency of a country, it must for all time, and in all circumstances, be retained as the standard, cannot be supported by any valid argument. That it is unjust to make changes in any arbitrary way, which must affect debtors and creditors in directly opposite directions in respect to transactions already entered into, may be admitted; but it is contrary to reason to say that it is wrong to guard creditors against future changes, which must be injurious to them, while they must be beneficial to debtors, and which will operate in a manner that was not contemplated when their engagements were entered into. The essential object of a currency law is to give stability to the standard of value in all transactions, and to give equal protection both to creditors and debtors; and if it fails to accomplish this, it may become the means of inflicting the greatest injury on innocent persons in an irresistible manner (which certainly has been the result of the Indian currency law), and so far as a remedy can be applied without extending the injury already inflicted, it not only may properly be done, but assuredly ought to be done.

16. Although the basis of the proposed arrangement would be to authorise the unlimited tender of gold at the Mints to be exchanged for silver money, its practical operation would not require the use of gold except in comparatively small quantities, far less indeed than what already finds its way to India in the ordinary course of trade.

17. Under the actual conditions of Indian trade, the import of silver into India and its coinage into rupees are so closely connected with the forced remittances from that country to England, that in ordinary circumstances (and excluding demands created by rupee loans issued in India) additions to the coinage to a very great extent correspond with the amount of currency required in India for purposes of foreign trade in excess of the sum which the Secretary of State offers in exchange for gold in London through the sale of his bills. Viewing the matter in this light, the proposed measure would cause hardly any disturbance of the existing system.

18. The great bulk of the exchange operations between England and India would be conducted as heretofore by means of the Secretary of State's bills. When the supply of rupees thus made available for trade purposes was exhausted, and further remittances were needed, the direct mode of procedure would be to send gold to India instead of silver as at present. As before said, the Mint on receiving the gold would sell so much of it as would purchase the quantity of silver required to provide the proper number of rupees to be given in exchange, and would coin that silver. But the necessity for the tender of the whole quantity of gold could obviously be avoided by the Mint receiving silver bullion sufficient in weight for the coinage of the required number of rupees, and only requiring in gold the excess value of the rupees, reckoned at 13 per sovereign, over their bullion value as silver. This excess value would virtually become a charge analogous to that for coining, and would be determined from time to time by the Mint, the public being

protected from overcharge by its legal right to receive 13 rupees for the gold in one sovereign, and by the small advantage that it would always be worth the while of the Mint to offer to the public, in order to be saved the trouble of selling the gold and buying the silver. To facilitate remittances from England this system might be readily extended by the Secretary of State giving to any one, on payment in London of the proper gold seigniorage, authority for having coined in India, without further payment of seigniorage, specified amounts of silver bullion. Precisely the same general course might be followed in dealing with the coinage of silver required for purposes of trade arising in India.

19. As under such a system the State would necessarily profit by the coining of silver, and an inducement would thus be offered for the illegitimate inflation of the currency by the Government coining for itself, it might be thought desirable to declare that the gold seigniorage received by the Mints should be sold in India or remitted to England, and further that the Mints should not coin for the Government, so that any extraordinary Government demand for silver money would have to be met by borrowing in India.

20. Suitable modifications would have to be made in the paper currency into the details of which it is not necessary to enter, as they would involve no difficulties. Attention would also have to be given to the Native Coinage Act, which provides for coining for Native States in India, but has been almost inoperative; as well as to the convention with Portugal relative to the coinage for Portuguese India, which is so framed as to cause no inconvenience.

21. The facts bearing on the import of the precious metals into India and on the coinage of silver for some years past justify the conclusion that a system such as that suggested could come into operation with very little interference with the existing course of trade, and without leading to any wasteful re-exportation of gold; these facts are otherwise of much interest, and throw valuable light on the general questions which underlie these discussions.

22. The average net yearly value of the imports of silver into India for the last five years ending March 1885 amounted to 61 million rupees. Of this 44½ millions were coined, and of the coined silver probably about 10 millions were exported annually, leaving about 35 million rupees for the yearly addition to the silver currency. During this period the yearly average amount of the Secretary of State's bills sold was 195½ million rupees. The average net imports of gold were valued at 47 million rupees.

For the five years next preceding, between March 1875 and March 1880, the average net import of silver was 70½ million rupees yearly. The coinage, however, was nearly 85 million rupees yearly. The larger import in this period followed the smaller amount of bills sold and increased borrowing in India, and the excess of coining over imports shows that in this period, which was one of prolonged famine, a large amount of hoarded silver was brought out for coinage. The average amount of Secretary of State's bills sold was 151 million rupees. The average value of the import of gold was only six million rupees.

Going back five years further it appears that the net imports of silver were, on the average, only 30½ million rupees, with an average coinage of 29¼ millions, and Secretary of State's bills 128 million rupees.

During the five years between 1870 and 1875 the exchange fell from 1*s.* 11*d.* to 1*s.* 10*d.*; from 1875 to 1880 the exchange fell from 1*s.* 9½*d.* to

1*s*. 8*d*. per rupee, averaging 1*s*. 8½*d*. In the five years from 1880 to 1885 the exchange further fell from 1*s*. 8*d*. to 1*s*. 7¼*d*., averaging about 1*s*. 7⅜*d*. per rupee.

23. For the present financial year the returns available show that up to the end of December (nine months) the net imports of silver had risen to 85½ million rupees, as compared with 51 millions in the same portion of 1884 and 38 millions in 1883. The amounts of silver coined in the corresponding months of three years were 81¼ million rupees in 1885, 36⅓ millions in 1884, and 21½ millions in 1883. The corresponding net amounts of gold imported were 21⅛ million in 1885, 43¼ million in 1884, and 44⅝ million in 1883. In the same months the Secretary of State's bills sold amounted to 80 million, 108 million, and 135 million rupees respectively. Since the beginning of the year the exchange has fallen from 1*s*. 7¼*d*. to below 1*s*. 6*d*.

24. From the foregoing facts it seems to follow that the fall in the relative value of silver to gold which has been going on since 1870 has not had any perceptible effect on the general import of the two metals into India; and still less can any relation be established between this fall and the additions to the rupee currency, which have been governed by trade demand, and are largely affected by the greater or smaller amount of the bills offered for sale by the Secretary of State and the sums borrowed in India.

25. The imports into India of gold and of silver bullion in excess of that required for coinage appear to be mainly governed by the limited demand in that country for foreign manufactures, and the disposition of the people to hoard the precious metals; and they are evidently directly affected by seasons of prosperity, to which the increased imports of gold in recent years is not improbably due.

26. The fall in the exchange value of the rupee seems to have followed slowly year by year, the appreciation of gold; the competition of silver with the Secretary of State's bills as a means of remittance, having operated rather in the way of keeping the exchange down to the gold value of the rupee for the time being, than of stimulating a fall, though occasional periods of pressure on the exchange have occurred. Such a pressure, probably due to fresh fears as to the action of the United States of America in respect to the coining of silver, seems to have been among the causes of the increased import of silver in the latter part of 1885, and contributed to the failure of the Secretary of State selling the full amount of the bills offered by him; the largely increased military expenditure earlier in the year, however, must in any case have been followed by an increased import of silver, leading as it did to a deficit of nearly three millions.

27. During the last four years India has absorbed not less than one-fifth part of the entire quantity of gold supposed to have been produced throughout the world, which is now estimated at somewhat less than 20 millions sterling yearly; and this has been wholly withdrawn from use as money. The average import over the last eight years has been about one-eighth of the annual yield.

28. As to silver, the annual production of which is now estimated at 22 or 23 millions sterling, the quantity taken by India on the average of the last eight years has been about one-fourth part of total yield, and this rate seems to be maintained.

29. During the last 10 or 15 years the period in which prices measured in gold out of India have continued to fall, prices measured in silver in India

have virtually remained unchanged. The evidence of this may be regarded as conclusive, and the fact can hardly signify anything but that, while the quantity of money in countries using gold has gradually become insufficient for their wants, India has been able to obtain the supply needed to keep her prices unchanged, and that there is no natural tendency to increase or diminish the supply of money beyond what will ensure this.

30. On the whole, there seems no reason to suppose that the future demand for silver for India, which shows no signs of increase, could become a factor of any great importance in determining the value of silver in relation to gold, or that additions to the rupee currency could sustain the value of silver in the future, by increasing the demand for that metal, to any greater degree than they have done in the past; and the same conclusion may be extended to the entire Indian demand for silver. There seems, therefore, to be nothing in the conditions of Indian trade that can tend to check the fall of the exchange value of the rupee; and it is idle to anticipate relief from any expansion of that trade which has increased more than 50 per cent. in volume, while the exchange has been steadily falling from nearly 2*s.* to 1*s.* 6*d.* per rupee.

31. It also appears that while the present average yearly addition to the rupee currency is little more than 45 million rupees, with a tendency rather to diminish than increase, the value of the imports of gold has for some years gone somewhat beyond that amount; so that even if the proposed system of coining silver were strictly applied and the whole of the gold needed to admit of an addition of 45 or 50 million rupees to the silver currency were passed through the Mint, that amount of gold would be forthcoming without any necessity for increased imports or wasteful re-exports. In no case could any difficulty arise as to the requisite quantity of silver, and under the arrangement previously explained the quantity of gold required, in the event of the value of silver falling to 1*s.* 4*d.* per rupee, would probably be less than 500,000*l.* yearly.

32. So long as the price of silver remained below that corresponding to the fixed rate, 13 rupees to the sovereign, the quantity of silver required for coining at that rate could be purchased by the Mint with a profit. If the price of silver rose and it was no longer possible to buy silver without loss, the Mint would once more be thrown open for unlimited coinage. Small variations of the price of silver on either side of the fixed rate would not affect the financial position of the Mint, and might be disregarded.

33. Although a measure such as that proposed, which, on the further fall in the value of silver, would increase the cost of the rupee measured in gold above what it would have been had the Mint remained open, might have the effect of causing a somewhat smaller demand for silver than that which might have arisen with an open Mint, there is no good reason for thinking that it would lead to any contraction of the rupee currency below its present volume, or prevent its natural expansion on the scale that would have been required for trade purposes had the value of silver remained as it now is. But no doubt, as the value of the rupee in relation to gold would become fixed, so prices expressed in rupees would follow gold prices, and with any further appreciation of gold, the rupee would rise in value and prices expressed in rupees would tend to fall. How soon or how far such an effect would be felt, it is impossible to say. But it may be remarked that the relatively large imports of gold into India of late years compared to silver, and the absence of any marked tendency to increase the rupee coinage, suggest the inference that an action may have been set up in the opposite direction, and

that India is now supplied with as much silver as is needed for her currency, and that this is becoming redundant, leading to a tendency for prices to rise, and giving a preference to the hoarding of gold rather than silver.

34. It is very necessary to bear in mind that the obligatory payments of India in England, in gold currency, must lead to an increase of the burden of taxation on India, corresponding to every appreciation of gold in relation to the merchandise by means of which the remittances to supply those payments are made. Whatever be the relative value of the rupee and Indian exports, the necessary volume of the exports rises and falls with the rise and fall of gold in relation to the exports. If the value of the rupee remains unchanged in India in relation to produce, while it falls out of India, a larger number of rupees must be provided by taxation to meet the Government payments out of India; if the value of the rupee rises in relation to Indian produce, a smaller number of rupees will be needed, but the real burden of taxation will be to the same extent increased; but with the important difference that in the former case the burdens would have to be imposed directly by new taxes, and in the latter the needful result would be obtained imperceptibly through a fall of prices. Thus would be averted a recourse to those most dangerous measures of additional taxation against which no other practical safeguard has ever been suggested, and the impending necessity for which daily becomes more alarming.

35. It is important that no misconception should arise as to the nature of the difficulties in which the Government of India is placed by the fall in the exchange value of the rupee. These difficulties, amounting, as has been more than once said, to very serious dangers, are mainly administrative and political in their nature, and though they are attended with very mischievous consequences affecting the employment of foreign capital in India, it is not, and I believe never has been, alleged that what was long termed in the public Accounts "Loss by Exchange" is anything more than the increased sum in rupees required to discharge the gold liabilities of the Government in England; neither has it been questioned that, with a fall in gold prices, India obtains some set-off against those increased rupee payments.

36. So far as the fall in exchange serves to stimulate the Indian export trade, by requiring the export of a larger volume of produce to discharge payments to be made out of India, the advantage it gives is to a limited class of producers, and is paid for by the general tax-payer so far as the Government remittances are concerned, and by the foreign investor of capital in India, or those persons who have to make or receive remittances from India, as regards the residue. The export of the increased quantity of produce required to compensate for its fall in value measured in gold must be paid for in the case of Government remittances by increased taxation, or made good by reduced expenditure on useful objects, and the country is in the end left the poorer to the full extent of this. The stimulus thus applied to Indian trade in no way differs in its operation from that of a bounty on exports provided from the public revenues, and, in the case of wheat, supports India in competing with English agriculture. It is certain that India as a whole cannot benefit from such a state of things, though no doubt it is greatly to the interest of a particular class to maintain it.

37. That the trade of India has greatly increased during the period in which the fall of the exchange value of the rupee has been going on, is beyond dispute; the total value of the imports having increased from 443 million

rupees in 1875 to 696 million rupees in 1885; the exports increased in value in the same time from 580 million rupees to 852 millions. But there is great reason to doubt whether this growth of the trade is to any important extent due to the fall of exchange. It has been before said that there is what may be termed conclusive evidence that the rupee prices of the chief products of India have not sensibly changed in this interval except as might have been expected from known variations of the seasons. Most Indian agriculture is carried on under conditions which leave little room to doubt that the prices of such produce in the local markets approximate closely to the necessary cost of production. The really important change that has taken place is the reduction of the cost of transport to the ports of export, through the great extension of railways, and the simultaneous large reduction in the sea freights due to improvements in ships and marine engines, together with the almost complete removal of all fiscal burdens on trade. In this manner the necessary cost of delivering Indian produce in its foreign markets has been so greatly reduced as to have allowed of the export with profit, in constantly increasing quantities, even with the falling prices in those markets, that have accompanied the rise in the value of gold in relation to other commodities, including silver.

38. So far as the fall in the exchange value of the rupee is due to the appreciation of gold in relation to commodities generally, this fall can give no permanent advantage to persons trading with India, because the gold value of the rupee and of produce would fall together; and though the rupee could be got for less gold, the produce it would purchase would be less valuable in relation to gold, and to secure the same profit a larger number of rupees must be paid. It is therefore only by a fall in exchange not accompanied by a fall in the gold price of produce, such as might be caused by a sudden reduction of the price at which silver is sold for export to India, that a stimulus to trade would be given; there is no reason to doubt that this action has from time to time taken place, and has had a considerable temporary effect, but this necessarily ceases as prices readjust themselves.

39. It follows, as a matter of course, that whatever stimulus to trade might have arisen under a continued fall of the exchange will be prevented if that fall can be arrested. But there is very good reason to expect that this would be far more than compensated by the advantages to be obtained by the increased certainty in all trade, and the additional facilities given for the investment of foreign capital in India, on which depends the further extension and improvement of the means of internal communication, and the reduction of the cost of transport, which are so essential to the continued expansion of the commerce of the country.

40. The same general considerations will apply to the imports into India as to the exports from it. If prices remain unchanged in India, while the gold value of Indian produce falls, the exchange of foreign merchandise with that produce will become less profitable, and must eventually cease, unless the gold value of the foreign merchandise also falls to a similar extent. In many industries this reduction of gold values will not take place, and the probabilities are that the general effect of the fall of gold values will be detrimental to the import trade into India. At the same time, the reduced cost of transport may operate so beneficially in an opposite direction as to admit of the general expansion of the trade, though with a tendency to reduce profits in most cases. The known facts are thus sufficiently explained.

41. Any rise of the value of the rupee in relation to its value in silver that might be caused by adopting a gold standard as proposed would operate unfavourably to India in the trade with countries that continued to employ a silver standard, such as China and other States of Eastern Asia. For with any further fall in the value of silver in relation to gold the price of opium in the modified rupee currency would also fall, and the revenue from this source would be diminished, while the competition of Eastern Asia with India in the export of tea and rice would be facilitated, and the export of Indian cotton manufactures might also be placed at some disadvantage. The compensation for this must be sought through the means before indicated.

42. There are certain well-known objections to an inconvertible token currency to which the proposed measure would be open, so far as it tended to give that character to the currency of India. But, unless the relative value of silver to gold continued to fall seriously, these would not be of practical importance, and call for no prolonged discussion. That no real inconvenience is necessarily caused by an overrated silver currency is sufficiently proved by the example of the States comprising the Latin Union, in which the legal tender silver coins are current at a nominal value which is now not less than 30 per cent. in excess of their intrinsic value. It would probably be long before the intrinsic value of the rupee fell to this extent below that which it now has, and whenever it became certain that no improvement in the value of silver was to be anticipated, the inconvenience could be remedied by the introduction of legal tender gold coins, and the final adoption of a gold standard in its usual form, which in the event contemplated would be virtually necessary, the existing silver coins remaining as a subsidiary legal tender currency as in the Latin Union. The case of Italy also may be referred to, in which an intrinsically worthless paper currency for many years sufficed for the wants of that country with an amount of depreciation in relation to gold which is insignificant as compared to that of the rupee at the present time.

43. So long as the existing form, weight, and standard of the rupee remained unchanged, there is no reason to suppose that the people of India would become aware of the change, or entertain any objection to it, provided of course the rupee continued to be as heretofore the legal coin by which all obligations could be discharged. There is no country in which the risks from false coinage could be of so little importance, or the facilities for excluding false coins so great.

44. In conclusion, I submit that the proposed measure would meet the essential requirements of the case without causing sensible inconvenience or disturbance of trade, and would be simple in its application and efficacious in its results; and I maintain that if objections are not found to be of a far more serious nature than those that I have been able to discover, or that have been raised against analogous proposals on theoretical grounds, there can be no justification for refusing to adopt it, excepting the substitution of some other preferable course which shall apply a complete remedy to the existing alarming condition of things.

# XLIV.

## Memorandum by Mr. R. Hardie, Treasurer and Secretary, Bank of Bengal, dated 22nd May 1886.

The measure proposed by General Strachey, for giving India a gold standard of value, without discontinuing the existing silver coinage, is ingenious, but the necessity for adopting such a measure, or the merits he claims for it, cannot, I think, be conceded.

Since the fall in the value of silver began, Indian trade has increased to an extent never before experienced, and Indian finance has been so prosperous that large remissions of taxation were made two or three years ago.

It does not, therefore, appear to be consistent with the facts to affirm, as General Strachey does, that India is now placed in an intolerable position by the continued fall in the value of silver in relation to gold. No doubt there are difficulties attending the present position, and these difficulties may increase, but they are not likely to be by any means insuperable. General Strachey's measure on the other hand, if it alleviated certain existing difficulties, would probably land the country in other and greater difficulties.

If the adoption of a gold standard of value, as proposed, was decided upon, it cannot be doubted that a still further heavy fall in the value of silver would take place, and that India would then stand possessed of, and be acquiring a currency valued far higher than its intrinsic value, and which would be inefficient for payments abroad. Such a system of currency would favour imports of merchandise, and discourage export of merchandise, and might so diminish the balance of trade in favour of India that increasing difficulties would be experienced in meeting India's gold obligations. It is quite conceivable that it might so affect the balance of trade as to produce what might be termed a dead-lock in the Indian Exchanges, inasmuch as the Secretary of State might be unable to sell his bills on India, at the artificial rate of exchange established, to the extent necessary to meet his expenditure in England. The example to which General Strachey alludes of the States of the Latin Union, in which silver coins are said to be current at 30 per cent. over their intrinsic value is hardly analogous, as these States are on a gold standard basis, and are possessed of sufficient gold to make that standard effective.

Assuming, as a certainty, that one of the results of the adoption of General Strachey's measure would be a further heavy fall in the value of silver, it would follow that the Indian export trade on which the prosperity of the country mainly depends, would be placed under serious disadvantages in the competition with other silver standard countries. General Strachey's measure would maintain a minimum rate of exchange approximating to 1*s.* 6*d.* per rupee, but if silver fell to the price that yielded an intrinsic exchange of only 1*s.* 3*d.* or 1*s.* per rupee, and other silver standard countries did not take the same action as had been taken by India, but continued to accept silver freely as at present, it must be concluded that India, in the profitable production for export of the commodities which those countries are also producing for export, would be seriously prejudiced.

For example, if the people of China and adjacent States obtained 10 or 20 per cent. more silver for their Tea and Rice than the people of India did, it surely cannot be doubted that an immense stimulus would be given in those countries to the production of the commodities referred to, and that their production in India would be carried on under a great disadvantage. And, if this would be the case in regard to Tea and Rice, it would be also more or less the case in regard to, all the other commodities which India exports, for it cannot be positively affirmed that she has, or will continue to have, the monopoly of the production of any article which appears in her export list It is therefore to be assumed that commercial enterprise in India would be greatly discouraged by the existence of a system of currency which placed the trade of India under such a disadvantage as would result from charging a seigniorage, which might be 10 or 15 per cent. or more, on her coinage, and which seigniorage would in fact operate as a duty on all Indian exports. The consequences of such a state of things can hardly be over-estimated—instead of an expanding trade, there would be a declining trade with falling prices, and if the Government succeeded by the operation of General Strachey's measure in limiting what is called its annual loss on its gold payments, it would certainly suffer greatly in certain branches of its Revenue, and that probably to a greater extent than the advantage it had secured in respect of its gold obligations.

In the last 10 years exchange has fallen from 1*s.* 10*d.* per rupee to under 1*s.* 6*d.* per rupee without, it is believed, causing permanent financial embarrassment to the Government. Instead of additional taxation having been found necessary to meet the so-called loss by exchange, remissions of taxation were conceded in 1882 to the extent of about 3 crores of rupees per annum, while 1½ crores per annum have for some time been especially assigned from the Revenue for a Famine Reserve. It may reasonably be expected that this experience of a falling exchange as regards the past, will be repeated to some extent in the future, and that, if exchange should fall to even 1*s.* 3*d.* per rupee, under the present system of the Mints being open to the free coinage of silver that Government will receive under several heads of the Revenue, such as Railways, Stamps, Excise, and Salt, very considerable compensations as a set-off for the loss by exchange.

General Strachey says it may be freely admitted that it is a very extreme measure to interfere with an established currency, and that nothing but extreme urgency can justify it. The extreme urgency for the change he proposes lies, he affirms, in averting a recourse to what he terms dangerous measures of additional taxation. It may be urged, however, that General Strachey is disposed to much exaggerate the objections to additional taxation, and to ignore the circumstance that a declining exchange, or a fall in the value of silver, far more suggests the adoption of additional taxation than the adoption of some fundamental and farreaching change in the currency of the country, the consequences of which for good or evil it is very difficult to foresee or determine. On the other hand, it can hardly be questioned that additional taxation is amply justified and can be imposed without injury to the community, under such circumstances as result from a fall in the value of the metal which forms the standard currency of the country.

The adoption of General Strachey's measure would, it is believed, result in a fall in the Indian prices of commodities, and in the contraction of Indian exports, and I think such a result must be viewed as being opposed to the best interests of the country. It appears to me that, but for its gold obligations, the Government could afford to view the fall in the value of silver with equanimity, if not with satisfaction, and the question therefore arises:—Is it really for the advantage of India, in order to minimise the loss on the Government's gold obligations, to take what, General Strachey describes as the extreme measure of interfering with her established currency? I feel bound to answer this question entirely in the negative, and to assert that the interests of India will be best served by adhering to her present standard, and keeping her mints open to the coinage of silver without limit. Silver is a metal which continues to be held in almost undiminished estimation by the vast populations of the East: it is the money of India, and money, in my opinion, is one of the greatest wants of India. With a silver standard, and free coinage, India is likely to obtain money to the greatest extent possible; whereas with a gold standard on the basis of an exchange of 1*s.* 6*d.* per rupee, the supply of money, for the reasons I have stated, would probably soon be restricted, prices would fall, and there would be no hope of any increase to the already miserably low average of the wages of the population. The reverse of these conditions may, however, be expected by adhering to the silver standard, for if silver should continue to fall, as appears extremely probable, prices and wages will rise, production will increase, and these acting together will lead to increasing commercial developments. The effect of General Strachey's measure would be to hold all these forces in abeyance, and to ultimately tend to producing a decline in all, and commercial retrogression.

General Strachey puts forward his proposed measure as a legislative measure, which, he submits, would meet the essential requirements of the Indian currency, without causing sensible inconvenience or disturbance of trade. The correctness of his conclusion cannot, I think, be admitted. His measure appears to be the result of giving undue attention to minimising the loss arising on the Government's gold obligations, and to protecting the interest of Anglo-Indians and the foreign capitalist with investments in India. But the interests of such as creditors it is clearly not the duty of India, as the debtor, to protect against loss, to her own injury. People having their capital in silver must accept the risk of depreciation in the same way as those who have capital in land or any other security. Moreover, it may be contended that, if legislative measures are to be had recourse to with the object of mitigating the adverse conditions of the present situation, they should be in a different direction; that they should be in the direction of abolishing all export duties, instead of imposing export duties, which would be the practical effect of any seigniorage charge on the currency; that especially the rice duty should be abolished, and that duties on all imports should be imposed to such an extent as the revenue may require to be supplemented to meet the increasing loss by the fall in the exchange. Import duties, in addition to the revenue they would yield, possess the great merit of contributing to increase the balance of trade which India would have annually to receive in bullion, and in that way to increase the Indian demand for silver, and maintain its price.

I think it may be affirmed that the general adoption of Bi-metallism would afford a far better solution of the silver question, as regards India, than General Strachey's measure, even although the former might establish a higher exchange than the rate of 1*s.* 6*d.* proposed by General Strachey, inasmuch as general Bi-metallism would result in all silver standard countries paying the same price for their currency, no one having any advantage over the other. India under such conditions could, therefore, hope not only to maintain, but to increase her trade in the commodities which she has the capacity to produce. Further, in regard to General Strachey's measure, it may be stated that when the exchange fell to 1*s.* 9*d.* per rupee, the position was considered as serious as it now is considered, and if his measure had then been imposed with the object of maintaining an exchange of 1*s.* 9*d.*, it can be imagined that, with the Indian currency on such a gold basis, Indian trade would not have manifested that elasticity and prosperity which have been its characteristics in recent years. In view of that conclusion it may be assumed that a measure which now fixed the exchange at a minimum of 1*s.* 6*d.* might be as unadvisable as the measure to fix it at a minimum of 1*s.* 9*d.* would have been.

In conclusion I would observe that the whole position of India, as a nation, in regard to the silver question, may be stated broadly as follows. The foreign trade of India consists of exports of merchandise and imports of merchandise: the exports pay not only for India's gold obligations abroad, but for her imports of merchandise as well, and a balance always remains in her favour. This balance she takes in silver. If silver is cheap, she gets more of the metal than she would get if it were not so cheap, and I hold that it is most to her advantage to get more, than less silver. It, moreover, appears obvious that the pressure of the gold payments upon India as a whole depends not upon the price of silver, but upon the gold prices realized for the merchandise exported to meet such gold payments. That the Government is in the position of receiving its revenue in silver, it may be asserted, does not affect that, the national, aspect of the question, and in my view it is, therefore, clearly the duty of Government to meet any financial necessity arising from a fall in the exchange, either by increasing taxation or by reducing expenditure, or by both. To attempt to meet the difficulty by taking the extreme measure of changing the standard of value is, I think, out of the question, and I express this view, holding the opinion that the value of silver will probably yet fall considerably.

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# XLV.

## Memorandum by Mr. J. Westland, Comptroller and Auditor General, dated 24th May, 1886.

In noting upon the subject of General Strachey's Memorandum, I shall try to confine myself to the particular question he raises without touching more general ones, which are equally implied in the discussion. For instance, General Strachey assumes what it is quite possible that he may have elsewhere discussed, but what he gives no reasons for in this Memorandum, that a gold standard is *per se*, for India, preferable to a silver one—a proposition which I consider an extremely doubtful one. I am inclined rather to say that greater facility in meeting its home obligations is the *only* interest that India has in a gold standard; and, if a silver standard is better with respect to all its other relations and concerns, I cannot concede that the question connected with its home obligations is of such tremendous importance as to overwhelm all others. The fact that we European officials, regarding our connection with India as only temporary, look to the gold standard of the country, where we ultimately intend to live, as preferable, for our own purposes, to the silver standard of the country where we earn our living, is somewhat apt to increase in our eyes the importance of remittance from India to England. But if we meant to stay in India all our lives, and our children after us, as the infinite majority of people dwelling in India do, I doubt if we would look upon a manifestly appreciating standard as more desirable than one which has been fairly steady in the past, so far as absolute value can be measured, and which, if anything, is likely to depreciate in future, that is, to lead to a general rising of prices and of wages. I believe that the introduction of an appreciating gold standard into India, by its direct operation in reducing our revenues, would in all probability lead the Government into much greater difficulties than any arising out of the exchange question.

However, the immediate question I wish to take up is rather what the precise effects would be of the proposal made by General Strachey, than whether these effects are in themselves desirable or the reverse; and here I think that General Strachey in his Memorandum confines his attention too exclusively to the immediate effect of his proposal upon the *rate* of remittance and does not sufficiently take into consideration the effect of the new conditions upon trade generally and upon the *amount* of remittances which the state of trade makes available.

Taking the three parties concerned in the matter, namely, India as a nation on the one side and England on the other, with the Government (or the Secretary of State) intervening between them, their relations may be thus described. India has a certain amount of merchandise for export, and is also under an obligation to pay to the Government of India, in the form of taxes, an amount of silver which represents the necessary payments of the Secretary of State. On the other hand, she wants a certain amount of imported merchandise and a certain amount of silver. The actual routine of business is as follows:—

She exports her spare produce, and receives in return therefor—

(1) the value of her requirement of imports in the form of bills payable in England in gold ;

(2) her requirement of silver, in silver bullion;
(3) debts due by the Secretary of State and payable in India in silver.

Of these receipts, she exchanges No. (1) against the imports she requires, and No. (3) against her obligation to pay the taxes above described.

Now, suppose that the value of gold as measured in silver and other goods becomes enhanced. So far as operation No. (1) is concerned, the exchange between imports and exports will remain the same in quantity, though the intermediate stage, the expression of the common value in bills payable in gold, will be smaller. As regards operation No. (2), India will also get the same quantity of silver for the same quantity of exports. But as regards operation No. (3), the debts are greater in value and India must export more—that is, she must press her exports in order to make up the requisite amount. She might indeed, by putting a tax on imports, put an obstacle in the way of operation No. (1), and thus drive a larger amount of her exports into channel No. (3); but leaving an import duty out of account, the object can be accomplished only by her becoming able, either by cheaper methods of production, or by a change in the rate of exchange, which will give her more silver for the same price paid by the consumer, to increase the amount of her exports, and by consequence the amount to be paid to her in all three forms put together.

Now this cheapening of the exports of India, so far as the consumer is concerned, occurs, *ipso facto,* by the mere rise of the value of gold, and we may, therefore, after such a rise, expect the exports naturally to increase enough to give rise to the necessary demand for the purchase of the additional amount of debts due by the Secretary of State. This effect may not immediately reveal itself in the case of a fall in the value of silver, because the fall of silver has, first of all, to be translated into a rise, with reference to commodities generally, of the value of gold; but this is the form in which the compensation does come, and it is the form in which, during the last ten years, it has continually been coming.

But now suppose that the Government decrees that, as all the silver coming to be paid in exchange for exports in the course of operations No. (3) and No. (3) has to pass through its hands, it will take away a part of it, and pass out to the exporter only the remainder. There is now an obstacle in the way of operations (2) and (3), and since Government appropriates part of the payment made through these operations, but on the assumption of there being no import duty appropriates no part of the payment made through operation No. (1), commerce will be more and more driven into that channel, and imports will be increased. Moreover, as the value of exports is, to begin with, greater than that of imports, the necessary result of their being driven into exchange with each other will be that the imports will tend to enhance still more in price than in quantity, and exports on the contrary will diminish still more in price than in quantity; thereby still further diminishing the balance of trade which has to seek payment through operations (2) and (3).

But still another effect will follow. Experience shows us that the importation of a certain quantity of silver, through operation No. (2), has been accompanied by comparative stability of prices in India; and it follows that the cessation of that importation will directly lead to a fall of prices. And a fall of prices operates to discourage production, and consequently to diminish exports, especially when, as in the case supposed, it is carefully prevented from reaching the consumer, and influencing him towards increase of consumption. So that not only the primary but also the secondary tendency of the proposed operation is a reduction of exports. And a diminution of exports has serious consequences, not only to the nation itself as a trading nation, but to the accounts of Government directly through its relation to railways.

It seems to me, therefore, that the result of General Strachey's proposal will be to create even greater difficulties than at present exist in the supply of the Secretary of State with remittances. That supply requires, for its condition, the existence of a certain balance of trade; and the proposed method goes directly to diminish that balance of trade. In fact, General Strachey argues throughout as if the only competition with Secretary of State's bills was that of silver offering in London, and he finds, therefore, that the imposition of an artificial burden upon that commerce in silver necessarily results in an advantage to bills. But the truth is, that there is a third competiton for the exports, namely, the merchant who tenders to India an equivalent in imports; and as his operations are unaffected by the artificial enhancement of the price of silver in India, he will merely step in to occupy the ground vacated by the Secretary of State and the tenderer of silver. And India, as a whole, instead of getting for her present amount of exports both her present amount of imported merchandise and her present amount of imported silver, and the discharge of some 14 or 15 millions of sterling obligations, will find that her production of exports falls off, and that the account of what she receives in return for them is only a little bigger in the matter of imported merchandise, and is miserably smaller under the two other heads.

I would point out in conclusion that it follows from my argument, if it is a correct one, that part at least of the remedy for present difficulties is to be found in the imposition of an import duty. The part of the exports of India which is paid for through what I have called operation No. (1) is much larger than the other two parts put together. The effect of an import duty will be to diminish this first part of the exports, by driving over a certain quantity into channels Nos. (2) and (3); and even a small proportional decrease in this first part may cause, by its transference, a comparatively large proportional increase in the amount that gives rise to the demand for silver and for Secretary of State's bills.

# XLVI.

MEMORANDUM BY MR. D. BARBOUR, SECRETARY TO THE GOVERNMENT OF INDIA, DEPARTMENT OF FINANCE AND COMMERCE, DATED 11TH JUNE, 1886.

Lieutenant-General Strachey proposes to alter the monetary standard of India from silver to gold, retaining, however, a silver currency.

A change of standard is at any time and in any country a very serious question; and a change to a gold standard involves special risks at the present moment, when gold prices have largely fallen and when there is reason to fear they may continue to fall.

The objections to an over-valued metallic currency are of special force in a country like India, which differs widely in its economic and political conditions from European countries.

It is therefore incumbent on the Government of India to examine closely the grounds on which Lieutenant-General Strachey proposes so great a change.

2. The ultimate cause of the evil which Lieutenant-General Strachey's proposal is intended to remove is the instability of the relative value of gold and silver, the tendency being for silver to fall and gold to rise.

The evils which are caused by the instability in the relative value of gold and silver, and by the continuous rise in the relative value of gold, are the following, so far as regards India:—

(1) The Government of India, having obligations payable in gold and a revenue payable in silver, finds it necessary to pay away an increasing number of rupees to meet its gold obligations.

(2) European officers of the Government of India suffer from a somewhat similar cause.

(3) The fluctuations in the relative value of gold and silver add to the uncertainties of commerce between India and countries with a gold standard.

(4) The continuous fall in the value of silver relatively to gold impedes the flow of capital from countries with a gold standard to countries with a silver standard.

3. I shall notice, in the first place, the last three of the evils enumerated in the preceding paragraph; but before doing so, I wish to call special attention to a fact which is of the utmost importance in connection with the question of a change from a silver to a gold standard.

Simultaneously with the fall in the relative value of silver, there has been a heavy fall in the gold prices of commodities, while the silver prices of commodities have remained much closer to the same level. It is not necessary to speculate on the causes of this fall. It will be sufficient for our purposes to recollect that there has been a fall in gold prices and that silver prices have remained much nearer their old level.

Thus, though it is quite correct to say that silver has fallen relatively to gold, it would be equally correct, and it would obviate some very erroneous impressions if we accustomed ourselves to say that gold had risen relatively to silver.

4. As regards the European officers of Government serving in India, it may be observed that they get some compensation* for the fall in the relative value of silver by the lowering of prices in England; that they cannot expect to be entirely relieved from the effects of that depression which has in various ways affected many of their countrymen in England to an extent which is equally serious; and that, even if the fall in exchange should lead to additional expenditure by Government in connection with them, the total amount will not be very great.

* A writer in the *Statist* of 20th February last estimates that the saving in England from fall in prices is as follows:—

| Income. | Saving. |
|---|---|
| £ 100 per annum . . | 16¾ % |
| £ 500 ditto . . | 11 % |
| £ 1,000 ditto . . | 7½ % |

The estimate is, avowedly, a very rough one, and there is no saving in the cost of education, which is the chief burden on Anglo-Indian officials.

The fluctuation in the relative value of the two metals adds to the uncertainties of commerce; but this evil cannot be very injurious to India, as her commerce has grown far more rapidly during the period that this disturbing cause has been at work than at any previous time. Silver prices have been maintained at about their former level while gold prices have been falling, and so far as regards trade and commerce, the countries with a gold standard seem to have suffered most.

Nor is the difficulty connected with the check on the flow of capital towards silver countries one of vital importance. Although countries with a silver standard have to accept the risk of borrowing in gold, yet they get some compensation in the form of lower interest, and, as a rule, it is optional with them to borrow or not, so that they are not absolutely bound to contract gold liabilities.

5. Looking then to the evils which have been enumerated under heads (2), (3), and (4) in paragraph 2, there are not sufficient grounds to justify the alteration of the standard in a vast empire like India, and especially the adoption of what appears to be an appreciating standard; still less is there sufficient ground for having recourse to a gold standard with an overvalued silver currency.

If there is sufficient justification for the proposed change, it must be looked for in the increasing burden which is thrown on Indian finance owing to obligations having been already incurred in gold, and owing to the special political difficulties which lie in the way of imposing additional taxation to meet the additional burden.

In dealing with this aspect of the question, the first step is to ascertain what the additional loss really is.

6. It is sometimes said that the loss to Government is the amount shown as exchange in the public accounts, and consequently that the loss to Government was estimated at Rs. 4,83,76,000 for 1886-87; but this belief is not correct, and the loss to Government is not, in any sense of the term, so much as is supposed.

I will take in the first place an extreme case,—that of an officer who receives in England the equivalent in sterling of a pension of, say, Rs. 5,000, fixed in rupees. When exchange is two shillings per rupee, the officer receives £500 sterling, and nothing is shown in the accounts on account of exchange; —when the exchange is 1*s.* 6*d.* per rupee, the officer receives £375 sterling, and £125 (really Rs. 1,250) is shown as exchange.

In the latter case, it would be commonly said that Government had lost Rs. 1,250 by exchange; but there has really been no loss to Government, the payment in each case having been the exact sterling equivalent of Rs. 5,000 at the exchange of the day.

A similar remark applies to all leave allowances fixed in rupees but payable in England, unless in certain cases when there is a maximum or minimum fixed in sterling.

Again, if the Government incurred debt on the 31st of March to the amount of £6,000,000 sterling bearing interest at the rate of 3 per cent. per annum, the charge for interest would be entered in the accounts at £180,000, and there would be an entry of exchange at £60,000 (really Rs. 6,00,000) if the rate of exchange during the year were 1*s*. 6*d*. per rupee, and this sum of Rs. 6,00,000 would be commonly spoken of as loss by exchange; in reality there is no such loss. The Government has borrowed £6,000,000 sterling, equal to 8 crores of rupees, and pays as interest £180,000 sterling equal to 24 lakhs of rupees.

But if the Government borrowed money when the rate of exchange was 1*s*. 8*d*. per rupee, and if the rate should afterwards fall to 1*s*. 6*d*., there would be a loss, which, however, should be measured, not by the difference between an exchange of 1*s*. 6*d*. and 2*s*. per rupee, but by the difference between 1*s*. 6*d*. and 1*s*. 8*d*.

Thus, if £10,000,000 sterling is borrowed at 4 per cent. per annum when the rate of exchange is 1*s*. 8*d*., the interest charge is £400,000 sterling and the exchange is Rs. 8,00,000: as soon as the rupee falls to 1*s*. 6*d*., the exchange becomes Rs. 13,33,000, and the real loss from the fall in the gold value of the rupee is the difference between Rs. 13,33,000 and Rs. 8,00,000, or Rs. 5,33,000. To take the figure of exchange entered in the accounts as the real loss to Government involves in this case an error of no less than Rs. 8,00,000. In fact, the figures entered in the public accounts under the head 'Exchange' are merely the numbers which must be added to the figures representing gold payments in order to get figures which represent the value of these payments estimated in silver, and they are not, and do not purport to be, the figures of the real loss to Government due to the fall in the relative value of the rupee.

Moreover, the Government can borrow in gold at a lower rate of interest than it can borrow in silver, and the rate of exchange must fall considerably below the rate of the time of borrowing before the real loss by exchange balances the gain from borrowing in gold rather than in silver. The Government in such cases deliberately balances the gain in rate of interest against a certain amount of loss owing to the fall in the value of the rupee, and takes the risk.

7. The argument which I have applied to the nominal loss by exchange in the case of borrowing applies with equal force to contracts made with Railway Companies. The real loss is not to be measured by the difference between the exchange of the day and an exchange of Re. 1 = 2 shillings, but by the difference between the rate of exchange of the day and the rate of exchange of the time when the contract was made with the Railway Company.

Nor do I think that in the case of expenditure for the purchase of stores, we should take into account any loss by exchange. The Government knows what the gold price is when it decides to purchase a certain commodity, and it knows what the rate of exchange is, and consequently it knows the amount of rupees it will have to give; and it gets the commodity for the price in rupees which it knew it would have to pay. If it does not like the price, it need not purchase the article. No doubt, if the rate of exchange were 2 shillings per rupee and *the gold price of the commodity did not alter*, Government would pay fewer rupees than when the rate of exchange was 1*s.* 6*d.* per rupee. But I do not see how in such cases we can fairly omit to consider the gain due to the fall in the gold prices of commodities, and yet treat as loss the fall in the gold price of silver.

As a matter of fact, the gold prices of commodities have fallen more than exchange has fallen, and Government now gets English stores for fewer rupees than it used to pay when the rate of exchange was 2*s.* the rupee. The Director General of State Railways has kindly furnished me with figures which illustrate this portion of the case, but I shall quote only a single instance, and that by no means the most remarkable. In 1873 a ton of iron girders of a certain class cost the Government of India £17-10 in England; in 1885 the cost was only £10-5.

8. I have mentioned the facts stated in the preceding paragraphs simply with a view to indicating the real dimensions and nature of the burden imposed on the Government of India by the continuous fall in the rate of exchange, and not with any intention of making light of that burden, or of attempting to prove that no special efforts need be made to find a remedy. Even after every item of fictitious loss has been deducted and every allowance made for the fall in English prices, the magnitude of the burden is of a very serious character. When a large and sudden fall takes place, the finances are temporarily disorganised, and if a heavy fall occurred at a time when the finances were seriously strained from other causes, the financial difficulties that would arise might prove a source of positive danger.

9. The growth of the Indian revenue since the fall in exchange began has been very great, and such as nobody could have anticipated; but it must necessarily be a matter of doubt whether the next ten years will be marked by equal financial progress, and the recent sudden and heavy fall in exchange has come upon us while the finances were being severely taxed to carry out a system of famine and frontier railways, and at a time when the defence of the empire demanded an increase of military expenditure. But great as our present difficulties are, I think that, in the absence of other adverse influences, they can be surmounted by effecting reductions of expenditure, by deferring improvements in the administration, and, if necessary, by taxation of a character to which there are no insuperable objections on political grounds, at least so far as India is concerned. In 1882 the Government remitted taxation to the amount of 300 lakhs; no portion of this taxation has since been reimposed, and the political objections to reimposing it derive their force rather from public feeling in England than from public feeling in India; nobody can wish to see the salt duty raised, and the reimposition of the import duties is open to many objections; but this taxation could be imposed without causing any strain worth considering on the goodwill of the Indian population, and if Her Majesty's Government leaves India to struggle with the exchange question as she best may, India should be allowed some latitude in selecting those forms of taxation which are least obnoxious to the Indian people. Even if the Government of India were to impose additional taxation to the extent of 2¼ crores of rupees, the total taxation of the country would be no heavier than it was in 1881-82, and 1881-82 was a year of remarkable prosperity. India has undoubtedly before her a period of

severe financial pressure, owing to the fall in the relative value of the rupee, but the difficulties to be encountered can, so far as it is now possible to foresee them, be met by economy and taxation. If, however, war, famine, or a great fall in the opium revenue should occur before our immediate difficulties had been surmounted, the gravity of the position would be immensely aggravated.

After all, my contention comes to no more than this, that the difficulties which lie immediately before us can be surmounted by ordinary financial measures, though such measures may require the country to make great sacrifices and postpone important improvements. We are not driven by a force which we cannot control to adopt heroic remedies or try dangerous experiments.

10. Lieutenant-General Strachey's proposal is intended to guard the Government against the effects of a fall in the value of silver relatively to gold, such fall being due either to a rise in gold or a fall in silver; and his method of effecting his purpose is by a manipulation of the Indian currency. Now, as has already been shown, the loss to India from the relative fall of silver arises from the fact that India has in past years engaged to pay away every year in England a certain amount of gold. India can only obtain this gold by offering in exchange for it the produce which she exports. If the gold prices of her exports are high, a less quantity will purchase the necessary amount of gold; if the gold prices are low, she will require to give a larger quantity. The loss or gain therefore to India, as distinguished from the Government of India, in respect of her permanent gold obligations depends entirely on the gold prices which she can obtain for her exports. No manipulation of the Indian currency can possibly affect the gold prices of Indian exports, and therefore General Strachey's proposal could in no case give any relief to India as a country, whatever effect it might have on the financial position of Government. Just as much as Government gained, just so much must the Indian people lose.

11. Lieutenant-General Strachey's scheme is essentially a proposal to charge a varying seigniorage on the coinage of rupees in such manner that the cost of a rupee to the tenderer of silver for coinage would be $\frac{3}{40}$ of a pound sterling, assuming that the rate of exchange to be maintained was 1*s.* 6*d.* per rupee.

At present the rupee contains 165 grains of fine silver. Under the proposed scheme, it would still contain the same amount of fine silver; but if the rupee fell relatively to gold—and this is the one result against which Lieutenant-General Strachey wishes to guard, and his proposal is unnecessary unless the rupee is about to fall—it would cost more than 165 grains of fine silver, because the tenderer of silver for coinage would be required to tender, not merely 165 grains of fine silver for each rupee, but a certain amount of gold as seigniorage. Let us then assume that silver fell relatively to gold to such extent that it required 165 grains of fine silver *plus* an amount of gold worth 33 grains of silver to obtain a rupee, or in other words that it required 198 grains of silver to purchase one rupee, and trace what the effects would be. I shall show, hereafter, that it would probably be found impossible for some years to maintain the rupee at 1*s.* 6*d.*, but for the sake of argument it will be assumed that the measures proposed by Lieutenant-General Strachey have been adopted, and that the exchange is thereby maintained at 1*s.* 6*d.* per rupee.

12. The revenue of Government for our purposes may be divided into two classes. There is the revenue which is fixed for ever, or for a long period, at so many rupees, and there is the revenue which is the result of bargaining. The permanently settled revenue is a perfect example of the one class, and the price paid for Bengal opium of the other class. If the revenue has been fixed permanently at so many rupees, each containing 165 grains of silver, and we say that in future the rupees must, practically, contain 198 grains of silver, we simply say indirectly that everybody who has hitherto paid Re. 1 to Government on account of permanently settled revenue shall in future be required to pay Rs. 1⅕. The burden of the permanently settled land revenue would be increased by 20 per cent, and the burden of all land revenue settled for a period would be similarly increased until the close of that period.

But as regards all revenue which is the subject of bargaining, the result would be different. Let us take the case of Bengal opium, which is sold to the highest bidder and is bought mainly for the China market. China is willing at present to give, say, Rs. 1,200 for a chest of this opium, but it is on the understanding that the rupee contains 165 grains of silver; in other words, China is willing to give 198,000 grains of silver for a chest of opium. If you say that the rupee shall be equal to 198 grains of silver instead of 165 grains of silver, you will not thereby induce the Chinaman to give more than 198,000 grains of silver. The only result will be that you will get 1,000 of the higher rupees instead of 1,200 of the lower rupees.

Consider, again, the case of Malwa opium, on which a fixed duty of Rs. 650 per chest is charged. If the rupee is to be of the value of 198 grains of pure silver and not of 165 grains, this fixed duty is practically raised by 20 per cent, and becomes equivalent to a charge of Rs. 780 of our present rupees. But Malwa opium could not at present bear a charge of this amount, and it would be necessary, instead of charging Rs. 650 of the new rupees per chest, to reduce the duty to Rs. 542 of the new rupees.

In the administration of the Excise Department the Government of India attempts to raise the maximum revenue without either encouraging consumption or giving rise to serious smuggling.

The maximum revenue is in this case the maximum amount of silver that can be obtained in exchange for certain privileges, and we shall get the same amount of silver whether we coin it into many or few rupees. The amount of silver that the public will give depends on the public, and it is the same to them whether they give us so many pieces of metal each of the value of 165 grains of fine silver, or a fewer number of pieces of metal each of the value of 198 grains. In the case of the export duty on rice, of the Salt revenue, of the Post Office, Telegraph and Railway and Irrigation receipts, the adoption of Lieutenant-General Strachey's proposal would simply amount to increasing the charge we now make by 20 per cent.—a course which is equally open to Government at present without having recourse to the extreme measure of altering the standard.

13. The expenditure, like the revenue, may be divided into two classes—expenditure permanently fixed in rupees for a number of years, and expenditure which is the result of bargaining from year to year. In the former category would be included all Interest on debt, and all Pensions, and Salaries, Assignments, Compensations, and the like.

For the present we are concerned only with the portion of this expenditure, which is payable in silver.

If we altered the value of the rupee from 165 grains of fine silver to 198 grains of fine silver, we should increase the burden on the tax-payer in respect of all public expenditure fixed for a term of years by 20 per cent, because the number of rupees to be paid away would be unchanged, while each rupee would be one-fifth more valuable than before. The net charge for interest on silver debt of all kinds in 1886-87 is Rs. 4,18,52,000. The increased burden on that amount would be Rs. 83,70,000 in our present currency; the increased burden on the tax-payer to meet the expenditure on Assignments and Compensations and Territorial and Political Pensions would be about Rs. 89,00,000, while the increase on Civil, Military, and Public Works salaries payable in rupees would be simply enormous. The aggregate of these salaries exceeds 21¾ crores annually at present, and the additional charge would be Rs. 4,35,00,000; of which, however, a portion might be recovered by reducing salaries. The additional charge for Opium also would be about Rs. 40,00,000 a year though possibly a corresponding reduction could be made in time, and at the cost of much discontent. All these extra payments, as well as others which I have not enumerated, would have to be taken from the tax-payer in one form or another; and the tax-payer would pay not merely any future loss, due to exchange falling below 1*s.* 6*d.*, on the gold obligations of the Government of India, but an increase on all the permanent silver liabilities of Government of exactly the same magnitude.

14. The facts of recent years show that the silver standard is well suited for India in every respect, except in so far as she has incurred gold obligations; and, save as regards this matter of permanent gold obligations, India with her silver standard appears to me to be much better off than those countries which have got a gold standard.

I cannot therefore find sufficient justification for Lieutenant-General Strachey's proposal, unless it be held that a further fall in exchange would be immediately followed by a corresponding rise in silver prices of all commodities in India of at least an equivalent amount. Of this there is no proof, and in my judgment no likelihood. The fall in exchange has hitherto been followed by a fall in gold prices, not by a rise in silver ones.

15. In the preceding remarks I have dealt with the effects of the proposed change on the public finances, and on all persons who had to pay money to, or receive money from, Government. But the effects of the change would extend far beyond this area. All contracts made in the past would be equally affected by it, and the burden of all contract payments, as well as of all payments which, though not fixed by contract, are determined by custom rather than bargaining, would be increased by 20 per cent. Take the case of a Tea Planter. He would receive for his produce exported to Europe one-sixth fewer rupees than he would otherwise have done. But he would have to pay away just as many rupees as before on account of any money he had borrowed, on account of his land revenue, and, for a considerable time at any rate, the same amount of rupees on account of wages, fixed salaries, and rent.

Until prices and wages had adjusted themselves to the new state of affairs, the effect on the tea industry would be the same as a heavy export duty of probably not less than 10 or 12 per cent, and the process of adjustment would involve ruin to the present race of tea planters, unless simultaneously there should occur a corresponding increase in the quantity of silver exchangeable for tea. There has not been any such increase in the past, and there is no reason to anticipate it in the future.

16. The simple facts of the case are that the Government of India has contracted permanent obligations which compel it to provide some 14 millions sterling in gold every year, that the gold prices of Indian products have fallen, that it consequently takes a larger quantity of Indian products to buy the necessary amount of gold every year, and that India as a country cannot receive any benefit in the matter unless the gold prices of her commodities should rise, or she should be able to produce them more cheaply. Lieutenant-General Strachey's plan would not raise the gold prices of Indian commodities, and so far from enabling them to be produced more cheaply, might very seriously, and perhaps disastrously, hamper and clog Indian industry.

If it be said that the scheme is not intended to benefit India but only to save the Government from financial difficulties, I would reply that it is difficult to separate the interests of India from those of the Government of India, and that the fact of the Government of India placing itself in a position in which it has to find, at an increasing cost, £14,000,000 sterling a year, appears to me a very insufficient justification for interfering by an arbitrary act with all Indian contracts, public and private, in the hope that the Government of India, as the result of the disturbance of all its contracts involving the receipt and payment of rupees, would reap a net advantage which would cover the loss on its gold obligations.

I do not know what the aggregate yearly amount of the contracts that would be interfered with may be, but it is immeasurably greater than the amount of the fixed gold obligations of the Government of India.

It is one of the canons of taxation that the amount received by the Government should be as nearly as possible the amount taken from the pockets of the tax-payer, but the form of taxation now being considered involves not merely indefinite and arbitrary taxation, but an unnecessary increase of expenditure, a violent interference with all contracts, and a disastrous dislocation of industry. It is difficult to believe that any such measure could permanently improve the financial position of Government, while it would certainly be injurious to the country.

17. The effects of introducing Lieutenant-General Strachey's scheme may be illustrated by assuming that it had been adopted when the rupee was equal to two shillings, that it had been successful in maintaining the rupee at two shillings and considering what our present position would have been. I will also assume, for facility of calculation, that the subsequent fall in exchange was only to 1*s*. 6*d*. the rupee.

In the case assumed, and which is very nearly what has actually happened, the value of the rupee would have been raised from 165 grains of fine silver to 220 grains, and every tax-payer whose revenue was fixed at so many rupees would now have been paying to Government exactly one-third more than he actually pays. The burden of all permanently settled land revenue would have been increased by exactly one-third, as well as of all land revenue which had been fixed for a long period. The burden of the present salt duty of Rs. 2 per maund would have been really Rs. 2-10⅔ per maund, the price of Bengal opium would be Rs. 900 per chest in the new rupees, while the burden of the Malwa opium export duty would have been Rs. 866 per chest but for the fact that we should long ago have been forced to reduce it. The export duty on rice would be four annas instead of three, and the tribute payable by Native States would have been enhanced by 33 per cent. At present the Post Office, the State and Guaranteed Railways, and the Irrigation Department charge fixed sums for rendering certain services; if the rupee had been artificially kept at two shillings, all these charges, though nominally the same, would really have been increased by 33 per cent if the falling off in revenue had not necessitated a reduction.

On the expenditure side of the account we should have been paying away the following extra sums, measured in existing rupees, besides other amounts which I have not taken the trouble to calculate :

| | Rs. |
|---|---|
| Extra burden on account of Interest . . . . | 1,40,00,000 |
| Extra burden on account of Assignments, Compensations, and Pensions paid in India . . . . . . . . | 1,10,00,000 |
| Extra burden on account of fixed Salaries . . . . | 7,25,00,000 |
| TOTAL . | 9,75,00,000 |

This enormous sum of 9¾ crores, and more, must have been taken every year from the tax-payer, and generally would have been taken from the tax-payer whose tax was fixed, and who had the best right to assume his tax would not be raised.

And while this sum would have been paid away unnecessarily every year, the country, as distinguished from the Government, would not have been saved one rupee on the real cost of her gold obligations, because the gold prices of Indian products would not have been affected, while there would have been a disturbance of all private contracts to the extent of 25 per cent, and a fall of 25 per cent in the rupee price of Indian products. This disturbance of contracts and fall in prices must have had a disastrous effect on Indian industry, and would have greatly favoured the competition of countries with a silver standard. The gain of the various Native States interlaced with British territory and still maintaining a sound metallic standard would have been very great.

So vast a disturbance of the economic condition of India would have very materially increased the difficulties of governing the country. The gain of Government in the form of seigniorage would, from the reasons stated hereafter in paragraph 19, be of no considerable importance.

18. The figures which I have given as illustrating what would have been the effect of establishing a gold standard in India when the rupee was equal to two shillings will give some idea of what the effect has been in England of maintaining the gold standard under the altered conditions of modern times. England, fortunately for herself, has been, so far, better able to stand the disturbance than India would have been, and she gets some compensation owing to the fact that large sums are payable to her yearly in gold by foreign nations.

The Government of India has contracted gold obligations amounting to about 14 millions sterling yearly, and the extra cost in rupees of meeting this obligation is shown separately in the Indian accounts and falls in the first instance on Government ; it has therefore attracted attention, but the yearly gold payments of England on account of her debt alone amount to 28 millions sterling, or twice the total gold obligations of India. The English tax-payer raises that sum by the sale of English produce, and owing to the fall in gold prices he suffers a loss in this item alone fully twice as great as the total loss by exchange that falls on the Government of India, and ultimately on the people of India, though he gains as compared with the Indian tax-payer in so far as the money is not taken out of the country.

So much of that loss as is due to the fall in prices caused by greater efficiency of labour and improved means of production is nominal, but the very same cause reduces the loss in the case of India, a portion of the fall in gold price, for example, being covered by the cheaper cost of transit from the interior of India to England. I mention these facts to show that India is not the only country that loses by the fall in gold prices. The loss of countries with a gold standard is immeasurably greater, though, as it cannot be shown in separate figures in the public accounts, it attracts less attention. For India to adopt the appreciating gold standard with a view of avoiding loss by exchange would be to pass out of the smoke into the fire.

19. There are also some minor points which deserve notice.

The closing of the last great mint which is open to the free coinage of silver would probably have disastrous effect on the market price of silver, and would thereby tend to aggravate existing difficulties. We know how sensitive the silver market is, and the effect of the announcement that the Indian mints were to be closed to the free coinage of silver might lead to a panic. It is quite possible that the divergence between the intrinsic and the nominal value of the rupee might become so great as to make it difficult to maintain the artificially appreciated currency.

20. I also doubt very much if the exchange value of the rupee could for some years be maintained at 1*s*. 6*d*., or at any other rate that might be chosen as being the market rate of the day. Large quantities of rupees are coined every year, but all the rupees that are coined at the Indian mints are not added to the active currency of India. Every year rupees are melted down to make silver ornaments, are hoarded in the form of coin, or strung together and used as ornaments, or exported to foreign countries or Native States. Good authorities have held that the amount of rupees in the active circulation does not exceed one-fifth or one-sixth of the total amount of silver in India, and of the amount held outside the active circulation a very considerable proportion is held in the form of rupees fit for circulation. The net yearly addition to the active currency is in my opinion very much less than is commonly supposed, and when a heavy seigniorage began to be charged, not a single rupee would be coined at the Mint that was not required to replenish the active currency. It is probable that the total amount required for this purpose would not exceed 1½ crores yearly, and it might prove to be less.

And for a long time any necessary additions to the active currency would be met by rupees flowing back from Foreign and Native States, and by the bringing forth of long hoarded rupees.

The Indian peasant may be content to hoard rupees so long as their intrinsic and their nominal value do not greatly differ, but when he finds that he could purchase for his rupee a considerably larger quantity of silver than that contained in the rupee, his tendency would be to part with the coin and substitute the uncoined metal.

If the indispensable additions to the active currency of British India be as small as there is every reason to believe them to be, these additions could for a long series of years be met by rupees flowing back from foreign and Native States and brought forth from hoards to be exchanged for uncoined silver. During all this time there would be no silver offered for coinage at the Indian mints; and as the Secretary of State would have to sell his bills for what they would fetch, there would be no guarantee that he would get so much as 1*s.* 6*d.* per rupee, or any other rate that had been chosen. So long as silver was not brought for coinage at the Mint, it would be evident that a rupee could be obtained more cheaply in the market than by tendering silver at the Mint and paying a seigniorage, and the Secretary of State could never sell his bills at any rate better than that current in the Indian market. It is in the last degree improbable that exchange would rise to 1*s.* 6*d.* until the active currency of British India had absorbed all rupees that are now held outside it, and until, notwithstanding such absorption, there had been such a contraction of the active currency, relatively to the work it had to do, as to make it profitable to bring silver for coinage notwithstanding the seigniorage charged by the mints.

# XLVII.

## Minute by Honourable Sir Auckland Colvin on General Strachey's Memorandum, dated 6th July 1886.

I have studied, with all the attention which it demands, the Confidential Memorandum, dated 31st March, by General Strachey, forwarded to us under cover of the Secretary of State's despatch No. 115, dated 22nd April 1886. I have shown it confidentially, with the consent of His Excellency and the Council, to certain members of the mercantile and banking community, and I have obtained the opinions of the Secretary in this Department and of Mr. Westland, the Comptroller General. The opinions so obtained are submitted with this Note. I feel no doubt that those who have been asked to advise us on the proposed measure have done so with a full sense of the great importance of the issues concerned; and further, with the feeling that any proposal of this kind deliberately put forward by a member of the India Council of the eminence and experience of General Strachey imperatively requires the most impartial examination. Like those whom I have consulted, I have been constrained to arrive at conclusions which, to my mind, render the adoption of the scheme proposed to us inadmissible; and I shall endeavour in this paper to state as clearly as I can the reasoning which compels me to dissent from the expediency of applying the proposed measure.

2. The case is very well summed up in para. 7 of the Memorandum, in the following paragraph:—

"It may at once be freely admitted that it is a very extreme measure to interfere with an established currency, and that nothing but extreme urgency can justify it. Therefore, before taking any step in this direction, a very careful examination is necessary of the relative gravity of those evils which, on the one hand, any suggested change is likely to produce, and, on the other, those which will arise, if no change is made."

Three points are here put forward for consideration: First, that nothing but extreme urgency can justify partial restriction of the free coinage of silver in India; secondly, that very careful comparative examination is necessary of the evils which are likely to be produced by (*a*) a change in the direction suggested, and (*b*) by continuance of the policy of inaction. The Memorandum does not, however, enter into any discussion of the first and third of the above points. It postulates, if I rightly understand, the existence of extreme urgency, and also the comparative disadvantage of inaction; and goes on to show how action in the direction proposed is desirable, and is, in its nature, practicable. It is, however, impossible for me, when engaged in examining the policy of adopting the proposed measure, to avoid enquiring into each of the above stated points in turn. I propose, therefore, first, to look into the question of urgency, and, secondly, to discuss the comparative dangers of interference or non-interference.

3. In respect, first, of urgency. Nobody can possibly question the extreme injury to which our finances are subjected by the uncertainty of exchange. It must not, however, be forgotten that in 1876, as in the present year, the Government of India found its resources threatened by a sudden fall in the value of silver. Then, as now, in the language of its despatch to the Secretary of State of the 13th October 1876, it was evident that there lay before the Government of India "a time of grave financial anxiety and difficulty, the issue of which cannot at present be foreseen." Now, as in 1876,

"whatever other measures may be taken hereafter, our immediate duty is plainly to curtail all avoidable expenditure, and to develop to the utmost our existing resources." The record of the measures adopted in 1886 is but the echo of the words with which, in 1876, the Government of India of that day announced its policy :—

"We are accordingly engaged upon enquiries in all departments of the Administration as to the possibility of organic reductions of expenditure, and, as you are aware, have already taken stringent measures to reduce current expenditure and to increase the productiveness of such branches of our revenues as are susceptible of improvement."

Since then circumstances have occurred which have rendered the present situation of the Government of India in some respects more embarrassing than in 1876. The recommendations of the Famine Committee have been placed before the public, and it has become the imperative duty of this Government to attempt, in conformity with the recommendations of the Parliamentary Railway Committee of 1884, to give substance to them. The course of events upon our North-Western Frontier has compelled us to add considerably both to our capital and our ordinary expenditure; so that in both these respects it is impossible to doubt that our position is less favourable than in 1876. On the other hand, we have now resources in reserve which at that time did not exist. We have, in the first place, the great and growing development of our Railway revenue; we have, also, the equivalent of the remissions effected in our salt duty in 1882; and if, on the one hand, we have reimposed an income tax, the import duties are now on the shelf; and, however difficult it might be to reimpose them, they afford, in case of ultimate necessity, an unquestionable reserve of revenue. We have, finally, to the credit side of our account the million-and-a-half at present annually devoted to the Famine Insurance Grant, which in 1876 was not available. So that I would not be inclined to say that the urgency of the present position was, on the whole, greater than in 1876, when the fall in silver had been even more serious and sudden than the late fall: and had found the Government of India less familiar with this class of financial difficulty, and therefore more susceptible of panic and less informed by experience of the nature and the elasticity of the resources at its disposal. Nevertheless, the Government of Lord Northbrook declined, in 1876, to accede to the recommendations of the Bengal Chamber of Commerce, having for their object the artificial regulation of the currency. The subsequent recovery of the finances, which admitted in less than five years later of large remissions of taxation, fully justified the decision of the Government.

4. I do not wish to be betrayed, in my desire to guard against the opposite extreme, into taking too sanguine a view of what, at the best, is unquestionably a most unsatisfactory financial situation. It will not, I hope, on the other hand, be objected to me that in the Budget Statement of this year I held language, when speaking of the urgency of the present financial situation, which is irreconcileable with what I now say. I purposely dwelt in that Statement as forcibly as I could, on the extreme uncertainty introduced into Indian finance by the oscillations of silver. I spoke of the effects of this uncertainty as being in many ways prejudicial; and I dwelt in subsequent paragraphs on the fact that the uncertainty of silver entirely neutralises the most carefully-formed plans for the future and that the most prudently-prepared calculations may be upset in a few days (as in fact they were within a few days of the publication of the Budget) by causes over which the Government of India are entirely powerless. I also drew prominent attention to the fact that a sudden fall in silver might swallow up more than the sum of

economies which the Government had achieved in consequence of a similar previous fall. The uncertainty and oscillation of the silver market was the main source of difficulty which it was my object to emphasise. I did not complain that we are without resources, but I insisted and repeated that we are without the means of ascertaining the extent to which at any moment our resources are required. My object was, and is, to assist in awakening public attention to the necessity of taking steps for the establishment of a fixed ratio between gold and silver. because, all other considerations apart, I believe it to be a measure essential to the stability of Indian finance. It is impossible to exaggerate the uncertainty introduced into all our calculations by the uncertainty in the value of silver, and it was to illustrate this that I addressed myself. With regard to the commercial community, this point of uncertainty is equally the *crux* of the situation. This has been well brought out at the annual General Meeting of the Bengal Chamber of Commerce held on the 20th May last by one of the speakers (Mr. McCaw), who spoke as follows :—

"But in these arguments it appears to me that the fact is, to a great extent, lost sight of, that what the trading community, whether exporters or importers, really require is fixity of exchange. What is interfering with business and rendering all mercantile operations so very speculative at the present time is the great uncertainty attaching to exchange. The violent fluctuations which have been experienced in rates during the past four months have rendered it quite impossible for any merchant when entering into a transaction to estimate, even approximately, what the result of such transaction would be. This does not arise because exchange is high, or because it is low, but by reason of its great variableness. The elements of risk in the conduct of a business in an ordinary way are great enough without adding to them, and anything which would render the relations of the metals, gold and silver, as measurements of value, fixed, whatever might be the ratio, would be most welcome to all those engaged in international trade. There is no doubt about one thing, and that is, that the present state of affairs in exchange is operating much against India's advancement, by preventing the flow of British capital for either permanent or temporary investment into the country ; and, even further, it is causing the withdrawal of capital already in the country, because of the fear that, if not taken away now, it may have to be withdrawn later on at a much lower level. Were there any stability attaching to rates of exchange, this would at once be altered. No matter at what level rates might be fixed, it would be all the same to a British capitalist whether he sent his money out to this country at 1*s*. or at 2*s*. per rupee, provided he felt certain of getting it back at or about the rate at which it was remitted."

I have now before me an extract from the proceedings of the Calcutta Chamber of Commerce of the 23rd instant, in which I find a speaker who disagrees with the bimetallic theory, nevertheless strongly supporting Mr. McCaw's contention which might, it will be seen, *mutatis mutandis*, be applied textually to the financial condition. Mr. Forbes Adam, in his paper appended to this Note, writes in almost identical terms :—

"I may further add that at no time during the downward course of the rupee has there been absent from the hearts of the trading classes a desire for stability in the standard of value. The unsteadiness of exchange during the last ten years has imported into all business calculations an element of constant uncertainty, which has been a source of much disquiet and inconvenience, and an element of considerable risk. Had it not been that a deep-rooted conviction existed that India was a distinct gainer by the continued drop, the wish for steadiness would long ago have been loudly and often heard.

The reason for which I draw attention to these views is because I wish to make it clear that when speaking of extreme urgency, we must distinguish. Our urgency consists rather in the necessity of assuring such stability of the standard as shall enable us to feel and to remain reasonably sure of what our position is than in finding actual means to meet at the present, or at any given moment, a sudden increase to our expenditure. With all reserve as to unforeseen calamities, such as famine and war, I consider that ours is not a position extremely urgent in the sense that we are approaching the immediate limits of our resources, but a condition of finance which is essentially unsound because based on an unstable standard. To remedy such a condition is, doubtless, important; but of importance in quite another sense from the urgency which would compel us to adopt otherwise indefensible measures in order to avert impending insolvency. I am not unmindful of the consideration that a measure the result of which would be to prevent further fall in exchange might possibly assist in facilitating a settlement of the silver question when the time for settlement arrives. The means proposed, however, are, in my judgment, too violent for this end; but I reserve what I have to say on this part of the subject for a later part of this Note.

5. As, in face of the recent fall and the present condition of silver, the views I have above expressed may seem questionable, it may be well, in a few words, to explain what, as the Member of this Government responsible for the finances, my conception of the position is. Briefly it is this: that looking at a normal condition of affairs, during the years 1884 and 1885, with the rupee estimated in the respective Budgets of 1884-85 and 1885-86 at 1*s*. 7½*d*. to 1*s*. 7*d*., arrangements based on those which in 1882 had been made by the Government of Lord Ripon secured equilibrium; that on the eve of the present year, with the rupee at 1*s*. 6*d*., with the addition to our revenues of the income tax and of a sum taken from the Provincial balances not more in amount than that which at the approaching revision of contracts will be added to imperial revenues, our annual resources again might reasonably be expected to prove sufficient to meet our annual expenditure; and that in the ensuing year, should the rupee then be taken at 1*s*. 5*d*., the absorption into our ordinary Budget of revenue and expenditure of a portion of the Famine Insurance Grant, combined with the results of the economies now being enforced, will (extraordinary emergenies, such as famine or war, apart) maintain equilibrium. I need not at present go into the calculations by which I arrive at this latter conclusion; but I may say generally that the large addition in the last three years to our opium reserve, the probable increase to the Imperial revenues consequent on the revision of the Provincial contracts and on the other enquiries now in course of execution, the normal growth of our revenues, and the impetus given to our Railway revenues by the increase of our exports, form the basis upon which I hold the belief that, for the immediate present, no more drastic measures are likely to be required to meet our increased difficulties than those which I have above indicated. But I shall be told that if the rupee has fallen in less than a year from 1*s*. 7*d*. to less than 1*s*. 5½*d*., it may similarly fall again before many months are over to 1*s*. 4*d*. or 1*s*. 3*d*. I think, *à priori*, that it will be conceded that, so far as past experience guides us, the fact of the recent heavy fall renders a further immediate considerable fall the more unlikely. Should such fall take place, we have the balance of the Famine Insurance Grant, and we have also the other reserves which I have indicated. Unwilling as I should be to add one farthing to the present taxation, the balance of the Famine Insurance Grant, which will remain after the amount which we propose now temporarily to absorb, and the raising of the salt duties, assuring, as they would, an increase between them of about £2,000,000 to our revenue, are in the event of a further serious fall in exchange unobjectionable and legitimate items of reserve, to the adoption of which no valid objection of principle could be taken. I venture, further, to think that if there is to be considerable continuous fall in silver, the consequences in Europe, and in England more particularly, will be so grave that

we shall no longer be left, as at present, to eke out by the absorption of our own resources the annual increase to our revenues necessary to meet the consequences of such a fall. A further rapid fall in silver must, in my judgment, produce a further serious fall in the price of wheat in England, and entail upon the land-holding and agricultural interests consequences of the most vital nature. The same cause will, on the other hand, impede the increase or even the maintenance of the present imports into India of English manufactured goods. Already it seems to be obvious that the effect upon the prosperity of English commerce and agriculture of the appreciation of gold, and the constant disturbance in the ratio of that metal to silver, is producing in the public mind of England a very marked impression. When it is said that "the experience of the last eight or ten years has made it clear that relief cannot reasonably be expected under a policy of inaction," I think that too little importance is given to the growing recognition in England during the last year or two of the consequences of inaction, not indeed to Indian but to English interests. Finally, though it is useless perhaps to look far forward, espicially in Indian finance, yet in considering this question of urgency and of the future that lies more immediately before us, it is not expedient to lose sight altogether of the fact that the revision of the settlement of land revenue both in the North-Western Provinces, in the Punjab, and in the Central Provinces has in some districts already recommenced, and in others is on the eve of commencement. The addition to our revenues from this source in the next five years will not prove inconsiderable, and will continue in increasing ratio for many successive years. The consideration does not strictly fall within the limits of this section of my Note, but I might perhaps also here observe that no moment could be more unfortunate for any measure the effect of which would be to introduce uncertainty regarding the prices of agricultural produce in India than the eve of resettlement of our land revenue. The argument may be held equally to apply to the establishment by international agreement of a fixed ratio between gold and silver, which we of the Government of India advocate. I admit that the eve of an epoch of resettlement would be a very undesirable moment for the introduction of any measure which was certain to lower the prices of our agricultural produce; but in the latter case the effect would be at least measurable, as being based on fixed and stable data. I give below a list of districts in the North-Western Provinces, in the Punjab, and in the Central Provinces which will come under revision of settlement during the next five years alone, showing the years in which the present settlements expire, and from which the new settlements should take effect. Measures have been taken by the Revenue and Agricultural Department to insure, as far as possible, the commencement of the revised settlement from the dates given :—

| | | |
|---|---|---|
| NORTH-WESTERN PROVINCES. | Dehra | 1886 |
| | Bolandshahr | 1889 |
| | Saharunpur | 1890 |
| | Basti | 1890-91 |
| | Muzaffarnagar | 1891 |
| | Gorakhpur | 1891-92 |
| PUNJAB | Amritsar | 1885 |
| | Sialkot | 1885 |
| | Gurdaspur | 1885 |
| | Lahore | 1888 |
| | Gujranwalla | 1887-88 |
| | Ferozepur | 1884-85 |
| | Gujrat | 1888 |
| | Montgomery | 1891-94 |

| | | |
|---|---|---|
| Central Provinces. | Raipur | 1885-88 |
| | Bilaspur | 1888 |
| | Chanda | 1886-89 |
| | Jubbulpore | 1887 |
| | Sambalpur | 1888 |
| | Mandla | 1888-89 |

6. I hope I have now said enough to show what are the grounds on which, in my judgment, the extreme urgency, which alone, as is admitted by General Strachey, can justify the adoption of his proposed measure, does not, so far as the financial position is concerned, exist at present in a greater degree than in 1876, when the adoption of an analogous measure was considered and declined by the Government of India. For what may be still thought by some to be the sanguine view taken in this Note of our present position and immediate prospects I must, of course, accept the responsibility. That view is based on the experience which I have acquired during the administration of the finances in the last two-and-a-half years; and is, I admit, strengthened by the conviction that the material interests of England and India have, by the special experience which is being acquired in this matter, been proved to be so inextricably mixed together that causes which injure one must eventually react on the other, and that this truth is becoming by daily experience more and more forced upon the observation of those engaged in England in making a special study of the currency question, and of the general public. I will not touch at present on the question of urgency as regards our commerce, partly because that belongs to another part of the subject, and partly because I think it will be admitted that the proposed measure is conceived in the interests less of Indian commerce than of Indian finance. If I have established my first point, making against extreme urgency in respect of our finances, the primary justification for the introduction of the measure proposed, by which the propriety of its adoption must in the first instance be tested, cannot be conceded. So far as concerns urgency, in regard to the necessity for placing upon an assured and stable footing our standard of currency, and thus putting an end to the uncertainty which weighs so heavily on us, I have nothing but concurrence to urge. Urgency, on the other hand, in the sense of the immediate necessity for adopting a measure which is admitted to be very extreme in order to prevent imminent catastrophe to our finances, cannot, in my opinion, be shown to exist.

7. I pass now to the second head which requires examination, namely, the comparative advantages of inaction or of action. What is to be said upon the latter point is fully stated in the letter of the Secretary of State for India to the Treasury, dated 26th January, 1886, and in our letter to the Secretary of State, dated 2nd February, 1886. The advantages of any measure which would procure for our monetary standard stability in relation to gold are unquestionable; not, from my point of view, because they would prevent any imminent catastrophe, but because they enable us to proceed with a reasonable feeling of security when adjusting our expenditure against our revenues. What we have to consider now is the price at which these advantages are to be bought; in other words, the considerations which tell against the course of action proposed in General Strachey's measure. There are three points of view from which that action is to be criticised: First, so far as concerns received principles governing questions of currency; Secondly, in regard to the effect of such a measure upon the Indian tax-payer; Thirdly, with regard to the

effect of such a measure upon Indian trade. In respect to the first point, it will be seen that at page 8 of his Memorandum General Strachey writes :—

"There are certain well known objections to an inconvertible currency, to which the proposed measure would be open so far as it tended to give that character to the currency of India. But unless the relative value of silver to gold continued to fall seriously, these would not be of practical importance, and call for no prolonged discussion."

Now with regard to this, I must observe that, in the first place, the grounds on which the proposed measure is put before us are that it is necessary to find some remedial measure releasing us from the position in which we are now placed "by the changes which have taken place, *and appear to be still likely to take place,* in the relative values of gold and silver operating through the different currencies of England and India." The growing instability of the relative value of gold and silver is the *raison d'etre* of the proposal before us. The whole purport and aim of General Strachey's proposal, as I understand it, is to guard us against the effects of a further serious change in the relative values of gold and silver. To dismiss therefore the objections alluded to in the Memorandum as of no practical importance unless the relative value of silver to gold continue to fall seriously, seems to me to be inconsistent with the object with which the Memorandum was written. I may point out, further, that nothing would conduce so seriously to a further change in that relative value as the adoption of a measure closing to the coinage of silver, except on presentation of gold, the only great mint which, at present at least, is open unconditionally to that coinage. The objections to an inconvertible token currency cannot therefore, in my judgment, be reasonably regarded as inapplicable to the scheme before us. On the contrary, that scheme immediately raises them; and the more operative the scheme is, the greater, as it seems to me, would be the force of the objections. I shall not be expected to enter here into a discussion of the principles underlying these objections, and I may be allowed to urge that it is not for those who uphold, but for those who attack, received principles of currency to establish their case. If those principles are, in any given case, inapplicable, they must be shown to be so. I will content myself here with restating them in the terms in which upon a previous occasion they have been formulated in connection with a somewhat similar proposal. In their reply dated the 24th November, 1879, to the proposal made by this Government to the Secretary of State for India, in our despatch of November 9th, 1878, the Lords of the Treasury, among much which to my mind is questionable, laid down one axiom, the soundness of which I believe to be indisputable. The proposal then before them was to bring back the value of the rupee to two shillings, whereas at present the object aimed at is to prevent the value of the rupee falling further, but the objection contained in the following words applied equally to either proposal. "This proposal," they wrote, "is in fact contrary to the essential and well-established principle of the currency law of this country, which regards the current standard coin as a piece of coined metal of a certain weight and fineness, and which condemns as futile and mischievous every attempt to go behind this simple definition. It is perfectly true, as stated in the despatch (paragraph 41) that the very essence of all laws relating to the currency has been to give fixity to the standard of value as far as it is possible; but it is no less true that according to the principles which govern our currency system, the best and surest way, and indeed the only tried and known way, of giving this fixity is to adhere to the above definition of current standard coin. A pound is a given quantity of gold : a rupee is a given quantity of silver : and any attempt to give these terms a different meaning is condemned by experience and authority." In connection with the objections which may be brought against an artificially valued currency, the case of the Latin Union is instanced in the Memorandum, in regard to which it is said, "that no real inconvenience is necessarily caused by an overrated silver currency is sufficiently proved by the example of the States comprising the Latin Union." But the illustration does not seem to me to be in point. In the Latin Union gold as well as silver is a legal tender; and although the free coinage of silver is suspended, the currency is, practically, bimetallic. Silver is exchanged for gold at a fixed ratio; gold circulates freely and in large quantities as the standard; and the objections which seem to me to militate so strongly against General Strachey's proposal, that the standard and the currency have no necessary relation, and that the currency will be practically inconvertible, is inapplicable. A case very closely in point would be that of Java, in regard to which we are at present engaged in enquiry. We have before us no recent information in respect of the working of the measures by which, in 1873, a standard was introduced in Java, and its silver currency reduced to the position of a token currency; but, so far as at present we have means of information, I believe I am correct in saying that the results have not been such as to encourage us to proceed in the same direction. Nor again, in view of the attitude of Belgium at the time of the recent renewal of the Latin Union agreement, can I admit that it is accurate to quote example of the States comprising that Union as furnishing proof that no real inconvenience is necessarily caused by an overrated silver currency. "The essential object of a currency law," it is argued again, "is to give stability to the standard of value in all transactions and to give equal protection to both creditors and debtors." This is true; but it must be a stability extending to all transactions, whether foreign or domestic. Currency laws are not for home use only; nor is the stability which they aim at expected to be attained, if they rest on a basis which is wholly independent of the intrinsic value of the metal of which a currency is composed. I do not see, again, how the proposed measure could give equal protection to both creditors and debtors. The modifications in our currency law now under examination might, on the contrary, profoundly affect the position of all who are debtors, and in proportion to the increase in the appreciation of gold, the burden on the debtor would become greater. The same causes which are operating in Europe, and are causing such disturbance in the relative situation of creditor and debtor, would be introduced into India. The proposal is analogous to what might have been put forward in 1863, when, owing to the depreciation which at that time existed in gold, economists were casting about for means to correct the evils with which the world seemed threatened. In a paper republished in his volume entitled "Investigations in Currency and Finance," the late Professor Jevons, writing in 1863, estimated the extent of the depreciation which had already taken place as approximately 15 per cent, and was inclined to think that the fall would be arrested at, perhaps, 30 per cent. There were authorities who at that crisis proposed to demonetise gold and to adopt a silver standard; and it is not, I venture to think, out of place to ask ourselves now what would have been the probable result of adopting such a measure.

8. My conclusion, therefore, so far as I have now discussed the proposal before us, is, that neither on the grounds of urgency nor in view of the principles which govern questions of currency is it desirable or defensible

to impose restrictions on the free coinage of silver in our Indian Mints. The introduction into India of a gold standard as distinguished from the introduction of a gold currency presents to my mind objections to which I see no adequate answer. I can perceive no permanent stability in a standard which is not represented by current legal-tender coin of that standard composed of full metallic value.

9. Further objections as to the difficulty of maintaining the rupee at 1*s*. 6*d*., and the injury to the credit of the Government should it find itself again compelled to adjust the standard, I will not more than allude to. Mr. Barbour has shown in his note that the former possibility is by no means out of question. Nothing would be more fatal to our credit than the suspicion of lying under the obligation of periodically adjusting our currency to our financial needs; and I think it should be unanswerably shown how, if we once enter upon the path of adjusting our standard to our requirements, we are to avoid the risk of being compelled, in spite of ourselves, to go further in the same direction.

10. I come next to the bearing of the measure in its relation to the Indian tax-payer and to Indian trade. On neither of these points is it necessary for me to dwell, because they have been fully discussed in the papers which are circulated with this note. This is, in fact, the special point of view chiefly taken in these papers. Without committing myself to all that is there argued, I think it may be said that two points are clearly brought out: the first that the burden of the proposed measure on the Indian tax-payer might (should gold continue to appreciate) be excessive, and might increase in proportion as the measure operated; the second, that its effects upon Indian commerce, and specially upon the chief agricultural industries in India, might be extremely injurious. It is impossible not to recognise the force of these objections, or to regard the danger which they contemplate as so remote as not to be worth considering. No one can question that as gold appreciated the value of our Indian produce would fall; and that in proportion as the value of produce fell, the burden on the Indian tax-payer must increase. Nor would he be relieved in any degree by the measure proposed from the additional burden at present imposed on him by the fall of the rupee to 1*s*. 6*d*.; so that the tax-payer would have to continue to bear the burden which he already bears in order to enable Government to meet the cost of its remittances to England, and, in addition, the further burden entailed upon him by the fall in the silver value of his produce. If gold appreciated, Indian industries would be in an increasing degree menaced; the trade in tea, especially, would probably be destroyed; our revenues, our export trade, our indigenous industries, and, among them, the industries carried on by Englishmen in India would alike suffer. This, if I rightly understand, is admitted in the eighth page of the Memorandum, and seems to me inconsistent with the expectations of encouragement to the placing of English capital in India which, among other advantages claimed for the scheme, are cited as a strong recommendation in its favour.

11. I hope that I have now sufficiently shown why I am unable to give my concurrence to the measure before us. I have examined it in no spirit of prejudice; for, apart from the weight which is due to any proposal put forward by its author, to me, certainly not less than to any one else, any relief which came in an acceptable form would be only too welcome. But I cannot see how, even supposing that our circumstances were worse than I believe them to be, we could adopt and put into execution a measure of this kind.