My own belief is that what we should aim at is, by taking the fullest advantage of the present fall in silver, to force upon English experience the conviction that the maintenance of a single gold standard, owing to the economical results attending its progressive appreciation, must in English interests be abandoned; and that the commerce of this country and of England cannot be carried on with advantage to either, so long as the metal which forms the standard of the currency of one country is regarded by the other in the light of a commodity only. The present condition of silver, injurious as it is to us, is full also of danger to English and European industries. I believe, therefore, in spite of the assurances to the contrary which for the present we receive from official sources in England, that our wisest course lies in taking full advantage of the low price of silver to increase our exports, a policy with which the measure put before us is inconsistent, rather than in the adoption of artificial methods of maintaining the gold value of the rupee, the consequences of which to many English interests would be rather favourable than otherwise, and to ourselves might prove extremely prejudicial. I do not wish to be understood thereby to contend that the present state of silver, because it enables us to increase our exports, is favourable to Indian commerce. The extracts which I have given show what are the views of some of the most experienced of those who are interested in our commerce. Whatever advantage may be gained by the existence of a higher range of prices in India than would otherwise obtain may be put to the credit of the present condition of silver. But the uncertainty which surrounds all commerce between India and Europe must be placed in the other scale. That uncertainty must, I believe, increase so long as the relations between gold and silver are left to the chances of the market. What I am anxious to point out is that, while both we and England suffer from this uncertainty, the result on the whole of cheap silver is peculiarly prejudicial to England, because it enables India to depress prices of English agricultural produce and places increasing obstacles in the way of the export of English manufactures. Therefore as I believe that our true remedy lies in obtaining concerted action with England, I would take no measure of which the result would be to obstruct the increase of our exports, or to diminish the disabilities of the English importer. In the protection of its own manufacturing and agricultural interests, the Government of England, if we persist in this policy, will, I believe, should gold continue to appreciate, be compelled, in concert with us, to take measures to regulate the ratio of the standards through the medium of which the common trade of the two countries is carried on. I see nothing in our present financial position, as I have endeavoured in the earlier part of this Note to explain, which should hinder us from continuing to persevere in seeking this solution of the silver difficulty.

XLVIII.

DESPATCH FROM THE GOVERNMENT OF INDIA, TO THE SECRETARY OF STATE FOR INDIA, No. 68, DATED 23RD MARCH, 1892.

We have the honour to forward, for Your Lordship's information, a copy of the correspondence,* noted on the annexed schedule, with the Bengal Chamber of Commerce, in which the Chamber enquires what we propose to do with reference to the heavy fall in the value of the rupee which has followed on the fall in the price of silver in the United States.

2. Your Lordship is aware of the anxiety with which we regard this question, and of its high importance in our estimation as affecting the interests of India. We have, at various times, for instance in our letters No. 45 of the 2nd February 1886 and No. 277 of the 4th September 1886, fully expressed our views on the subject, and it is unnecessary to repeat them here. But we desire to say that the violent oscillations in the price of silver since 1890 and its rapid decline during the last year to the lowest point yet reached cause us, as they have caused the mercantile community, the gravest anxiety for the future.

3. We are desirous, as we have always been, of aiding in the settlement of the silver question by International agreement, and if proposals should be made by the United States or by any other Government for the holding of an International Conference, we trust that Your Lordship will lend those proposals your strongest support.

4. In our opinion it is not open to question that if International agreement is not arrived at, the United States Government will sooner or later be driven either to the adoption of a silver standard or to abandonment of its purchases of silver. It is certain that the cessation of the purchases of silver by the United States could not fail to depress still further the price of that metal, and the policy to be followed by India in that event deserves the most serious consideration on an early date.

5. The stoppage of the coinage of silver by the United States will probably, if it should come, come suddenly, and if we defer until it has taken place the consideration of the measures which in that event it may be expedient to adopt, we shall find ourselves unprepared and left with no time for due consideration.

6. We are, therefore, of opinion that the subject should be considered in all its bearings beforehand, and we recommend that, in view of the possible action of the United States in the future, Her Majesty's Government should now take into consideration the question whether any, and if so what, measures can be adopted for the protection of Indian interests against the further decline in the gold value of the rupee to which, for the reasons which we have given, we may be at any moment exposed, and the violent fluctuations in the relative value of gold and silver to which, under present circumstances, we cannot assign any limit either in time or in amount.

* Not printed in this volume.

XLIX.

DESPATCH FROM THE GOVERNMENT OF INDIA, TO THE SECRETARY OF STATE FOR INDIA, No. 160, DATED 21ST JUNE, 1892.

In our Financial Despatch No. 68, dated 23rd March 1892, we requested Your Lordship to lend your support to any proposals that might be made by the United States of America, or by any other country, for the settlement of the silver question by International Agreement. At the same time we called attention to the probability that, failing an International Agreement, the United States would be forced to stop the purchase and coinage of silver, and we requested that Her Majesty's Government, in view of this contingency, should now take into consideration whether any, and, if so, what, measures could be adopted for the protection of Indian interests.

2. Since that Despatch was written we have learnt with satisfaction that Her Majesty's Government have accepted the invitation of the United States to take part in an International Conference to consider measures having for their object the more extended use of silver as currency, and that Your Lordship agrees with us in the importance of Indian interests being properly represented.

At the same time we cannot overlook the strong opposition to the introduction of the system of double legal tender into Great Britain that has been manifested in certain quarters, and we observe with regret that the Conference has been summoned to consider the question of the more extended use of silver as currency, and not for the purpose of considering the adoption of an International Agreement for the free coinage of gold and silver, and the making of both gold and silver coins legal tender at a definite and uniform ratio.

3. We fear that a refusal on the part of Great Britain to adopt the system of double legal tender may be fatal to an International Agreement for the free coinage of both gold and silver, on a sufficiently wide basis, and we believe that a limited increase of the quantity of silver used as currency will exercise a very trifling influence (if any) in raising, or preventing a fall in, the gold price of silver, while it will be wholly without effect in the far more important matter of preventing fluctuations in the relative value of the two metals. We greatly regret this state of affairs, both because we believe that no other country is so deeply interested in, or would benefit so greatly by, a uniform standard of value throughout the civilised world as Great Britain, with her vast system of trade and the great extent of her finance, and because the final rejection of an International Agreement for free coinage of both gold and silver will leave this country face to face with a problem of the greatest difficulty.

4. If the forthcoming International Conference fails to arrive at a satisfactory decision regarding the silver question, we apprehend that it will very soon be necessary for the United States to decide either to accept a silver standard, or to abandon the purchase and coinage of silver on a scale in excess of what is required to keep up the necessary subsidiary coinage.

If the United States abandon the attempt to maintain the use of silver as standard money, there must be an immediate and very great fall in the price of silver, which would re-act on the Indian exchanges and increase indefinitely the rupee burden of our sterling obligations.

The recent fall in the rate of exchange has already imposed upon our finances a burden which we shall have some difficulty in meeting, and we cannot contemplate without dismay the prospect of another fall of indefinite amount, attended no doubt with great and sudden fluctuations in the gold price of silver, and to be followed possibly by further falls in the future.

It must also be remembered that, if the present conditions continue the pecuniary difficulties of the Government of India will not be limited to the loss by exchange. The fall in silver causes distress to a very large number of our European officers of all services, but especially of the army, who have to remit money to their families in England. This distress is rapidly becoming acute. It has been borne hitherto with great patience. But, in the case we have just supposed, we shall, unless the efficiency of the service is to suffer, find it necessary to satisfy, in a reasonable manner, claims involving compensation to a large amount.

5. We have carefully reviewed all the circumstances of the case and we desire to place on record for Your Lordship's information our deliberate opinion that if it becomes evident that the International Conference is unlikely to arrive at a satisfactory conclusion, and if a direct agreement between India and the United States is found to be unattainable, the Government of India should at once close its Mints to the free coinage of silver, and make arrangements for the introduction of a gold standard.

In arriving at this conclusion we have been mainly influenced by a consideration of the fact that the abandonment of silver by the United States of America would involve the perpetuation of all the evils from which we have suffered during the last twenty years, and possibly their perpetuation in an aggravated form, unless steps are taken for the establishment in India of a gold standard.

We believe that public opinion in India is ripe for the adoption of decisive measures, that the stoppage of the free coinage of silver would be generally approved, and that we might safely count on receiving every reasonable assistance from the commercial and banking classes in the attempt to introduce a gold standard.

6. We forward as an enclosure to this Despatch a Minute by our Honourable Colleague Sir David Barbour, which gives an outline of the method he would propose to adopt for the introduction of a gold standard into India if such a measure should become necessary. It will be seen that he does not support the proposal to stop the free coinage of silver if the Conference fails and a direct agreement between India and the United States is found to be unattainable, but that he would adopt that measure as soon as it is evident that the United States will not adopt the free coinage of silver.

7. Our Honourable Colleague Sir A. Miller fears that if all action be deferred until it is known to what conclusion the Conference will probably come, the effect of such knowledge on the silver market will be such as to make it then too late to act with effect. Failure on the part of the Conference to arive at a satisfactory conclusion will find the Government of India in a very much worse position for introducing a gold standard, if it has not in the meantime taken steps to prepare the way by an alteration in the terms on which it coins silver for the public, than it is at the present moment. He thinks that measures ought to be taken at once which would enable the

Government of India to close its Mints against silver at any moment, and to introduce a gold standard if and whenever, from the course of proceedings at the Conference or otherwise, they may deem it desirable to do so.

8. It may, perhaps, be desirable to make known at some stage of the proceedings of the Conference our views regarding the introduction of a gold standard into India. But this question, as well as the question of the expediency of India negotiating directly with the United States of America, as suggested in our telegram * of 19th May, may stand over until the Conference has assembled and the Representatives of India are in a position to report what the prospects are of a satisfactory solution being attained.

* . . . We desire to call Your Lordship's attention to paragraph 133 of Part II of the Final Report of the Gold and Silver Commission and to suggest that, failing an International Agreement, it may be possible for India and the United States to come to a direct agreement as to coinage of silver . . . . We are of opinion that the time for a merely academic discussion of the problem is past, and urge that a determined effort be made to settle the question by the adoption of practical measures.

L.

MINUTE BY THE HONOURABLE SIR DAVID BARBOUR, K.C.S.I., DATED 21ST JUNE 1892.

In dealing with the currency of British India it is necessary to draw a distinction between the active rupee circulation and the total number of rupees in existence. A large proportion of the rupees issued from the Mints and not melted down are kept as permanent hoards and fulfil none of the functions of money. This distinction cannot, however, be sharply drawn, as rupees are always liable to pass from hoards into the active circulation and *vice versâ*. What I call the active rupee circulation may be held to include all the rupees which at some period of each year are used as money.

The total active rupee circulation has recently been estimated at Rx. 115,000,000.

Without accepting these figures as more than an approximation to the truth, they are sufficient to show that a gold standard with a purely gold currency is impossible in India. To establish a gold standard in India with a full legal tender currency composed entirely of gold it would be necessary to withdraw from circulation about 1,150 millions of rupees, to melt them down and sell them for what they would fetch as silver bullion, and then to replace them by about £77,000,000 worth of gold.

In the present conditions of India and of the silver and gold markets this would be an impossible operation.

Moreover, a gold standard with a purely gold currency of full legal tender coins would not suit India (even if it were possible to introduce it), because the gold coins would in practice be of too great value to suit the vast majority of Indian transactions.

2. It follows from what has been stated in the preceding paragraph, that if we are to have a gold standard in India, a large proportion of the circulation must consist of silver coins, and these coins must be a legal tender to any amount. The example of France and other countries shows that it is possible to have a gold standard although a large percentage of the circulation consists of overvalued silver coins which are legal tender to any amount.

In order that the gold standard may be effective a limit must, however, be placed to the number of such coins and they must be convertible into gold coins, either without payment of premium or on payment of a trifling premium, whenever any person wishes for gold coins in exchange for silver coins.

So long as the silver coins are freely exchangeable for gold coins in accordance with their face values the gold standard is effectively maintained.

3. I have no doubt that even with a gold standard the people of India would in almost all their transactions prefer to employ silver rupees. It is improbable that a gold coin of less than R10 in value would be issued in India, and such a coin would be quite unsuited for ordinary Indian transactions. Rupees 10 represents, generally, much more than a cooly's wages for a month, and if a cooly received his wages in the form of a single coin, he would immediately exchange it for smaller coins. We could not pay our soldiers or police in gold coins. Payments to the opium cultivators could not be made in gold neither could the ryots pay their rents in gold.

There would, also, be a not unreasonable dread among the common people that gold coins might be of light weight, they would generally be unwilling to accept them, and for monetary purposes in ordinary life gold coins would hardly be used. This would be the case, I believe, even if gold coins of the value of only R5 each were issued.

4. It may, then, be taken for granted that with a gold standard the great bulk of the Indian currency must continue to be silver rupees, and that, for monetary purposes, there would ordinarily be no considerable demand for gold coins in exchange for silver. On the contrary, the demand for monetary purposes would rather be for silver coins in exchange for gold coins. Gold coins would only, as a rule, be required in exchange for silver coins, when gold was required for hoarding, for export, or to be melted down for ornaments.

It follows that with a gold standard India would require, and would use, a very large amount of silver rupees, and would neither require nor use a large number of gold coins.

Any gold coins that were put into circulation, and were not melted down or hoarded, would very quickly find their way into the hands of Bankers and dealers in bullion, into the Government Treasuries, and into the Paper Currency Reserve.

5. For the purpose of introducing a gold standard into India we might stop the free coinage of silver, adopt measures for accumulating a store of gold, and when what was considered a sufficient stock of gold had been obtained, we might open the Mints to the free coinage of gold, make gold coins a legal tender, and guarantee by means of our accumulated stock of gold* the exchangeability of silver for gold coins according to their face values. I do not recommend this plan; the accumulation of a sufficient store of gold would be a measure too expensive for a country situated as India is, and when it had been accumulated and the exchangeability of the silver coins for gold coins had been guaranteed by means of it, there would be a very great risk of the whole stock of gold being drawn away in exchange for silver rupees. If this should happen, and I think it would happen unless our stock of gold was very large indeed, the gold standard would cease to exist, and we should find ourselves exactly where we started.

6. The only measures for the introduction of a gold standard into India which seem to me feasible are the following:—

(1) The first measure would be the stoppage of the free coinage of silver. Government would retain the right of purchasing silver and coining it into rupees.

(2) The next measure would be to open the Mints to the free coinage of gold. Any man bringing gold to the Mints would be entitled to have it coined into gold coins which would be legal tender to any amount. It would be desirable to stop the free coinage of silver some time before opening the Mints to the free coinage of gold. It would be a valuable guide to us in subsequent proceedings to know exactly what effect the stoppage of the free coinage of silver had on the gold value of the rupee.

The new gold coins might be a 10-rupee piece and a 20-rupee piece.

7. The weight and fineness of the gold coins to be issued from the Mint would be such that the par of exchange between them and the sovereign would be the exchange which it was desired to establish between India and England.

For example, if we wished the rupee to be worth 1*s.* 4*d.*, the ten-rupee coin would contain as much gold as was worth (1*s.* 4*d.*) × 10 = 160 pence.

The quantity of fine gold in the 10 rupee piece would be $\frac{160}{240}$ths or $\frac{2}{3}$rds of the quantity contained in the sovereign.

8. The question of the ratio at which we should change from the silver to the gold standard would require careful consideration.

We ought not to think of going back to the old ratio of 1 to 15½. Neither ought we to adopt the very lowest price to which silver may have fallen at any time, or to consider ourselves bound to accept the market ratio of the very moment at which the change was made. A ratio based on the average price of silver during a limited period before the introduction of the gold standard would probably be both the safest and the most equitable.

9. We may be quite sure that, on the introduction of the gold standard, Bankers and bullion dealers away from the Presidency towns, and, perhaps, in the Presidency towns, would charge something for changing silver coins for gold ones. The general public, however, would very seldom require to make such exchanges, and if all Government Treasuries were required to give gold coins for silver coins whenever it was possible for them to do so, there could not be any considerable premium on gold coins so long as there were such coins in the public Treasuries or in the Paper Currency Reserve, and the gold standard would, subject to the above condition, be effectively maintained.

10. After the above measures had been carried out, it might happen that no gold was brought to the Mints to be coined and put into circulation, and that the rupee fell in value below 1*s.* 4*d.*

Or, it might happen that though gold was brought to the Mints for a time and the rupee was worth 1*s.* 4*d.*, yet subsequently gold ceased to be brought to the Mints, the gold coins disappeared from circulation, and the rupee fell below 1*s.* 4*d.*

If gold were not brought to the Mint to be coined and put into circulation, or if gold coins disappeared and gold ceased to be brought to the Mints, it would be a sign that the rupee currency was redundant, or, in other words, that there were too many silver rupees in circulation, that consequently their value had fallen below 1*s.* 4*d.* each, that gold coins had been driven out of circulation, and that the gold standard was no longer effectively maintained.

The remedy in such case would be to contract the rupee currency, and to adopt any feasible measures for improving the general financial position of the country. An improvement in the general financial position would give increased confidence, and the reduction of the rupee currency, if carried far enough, must ultimately restore the value of that coin.

11. The greatest danger from the cause just indicated would arise immediately after the first introduction of the gold standard, and would be brought about by silver rupees being returned into India from foreign countries, and by their being thrown into the active circulation from Indian hoards. I think that Indian rupees would certainly be returned to India from abroad when their value in India became greater than their bullion value, but I now doubt very much if Indian rupees would be largely brought out of hoards. It is more likely that existing hoards of rupees would practically remain unaffected. I formerly held a different opinion on this point and believed that rupees would be largely brought out of hoards when they were given a value exceeding that of the metal contained in them.

12. The reduction of the rupee currency in the manner just indicated, if it became necessary, might or might not prove a very expensive measure. It could of course be spread over a number of years, but until it had been carried out to a sufficient extent the gold standard would not be effectively maintained. When the rupee currency had once been sufficiently reduced, I should not expect any serious difficulty in the future.

Looking to the increase of population in India, to the rapid opening out of the country, and to the comparatively small part which credit plays in Indian trade, it may fairly be held that even with a gold standard an increase of the rupee currency would be required every year, and that increase I place at not less than Rx. 1,000,000 yearly. It might be considerably more, twice or three times as much. When the coinage of rupees was stopped any redundancy of the silver currency would be diminished yearly by this amount without any action on our part. It is also not impossible that rupees would continue to be withdrawn from the active circulation to be hoarded as at present; they would certainly be hoarded by persons whose savings were small. This cause would still further reduce any temporary redundancy of the silver currency at first starting. Of course while the reduction of the rupee currency was in progress we would not have an effective gold standard, but even during that period of uncertainty I should expect the exchange with England to remain much steadier than it has been during the last few years. It would cease to be blown up and down by every breath of speculation, and if we could establish confidence in our measures, the rate of exchange would tend strongly towards the rate we had decided to maintain, and would only diverge from it under the pressure of real economic forces.

A nation that possessed a fairly satisfactory standard of value might well hesitate to expose itself even temporarily to the evils of an inconvertible standard, but no such argument applies in the case of India. We already labour under difficulties which are quite as great as those to which an inconvertible paper standard would expose us. The prospect of being unable for a time to effectively establish the gold standard need not, therefore, deter us from the attempt to do so if we see a prospect of success in the future.

13. It is also possible that under certain conditions of trade there might be more gold brought to the Mint and put into circulation than was required for ordinary use as currency.

In that case the public would get rid of the gold coins by paying them into the Government Treasuries. Gold might accumulate in these Treasuries and the Government could not, in practice, relieve the Treasuries by forcing gold coins on persons who preferred to receive payment in silver.

The proper remedy for any such accumulation of gold would be for the Treasuries to pass the gold coins into the Paper Currency Reserve which could absorb several millions without difficulty, and the Paper Currency Reserve could be relieved, when necessary, by remitting the gold to England in payment of debts, its place being taken by silver rupees.

No serious difficulty arising from an over-supply of gold coins need, therefore, be feared.

14. It is important to consider what the additional demand for gold would be, owing to the establishment of a gold standard in India.

Taking the active circulation at Rx. 115,000,000, I think that gold coins to the value of one-fifth of that amount would be an ample proportion of the active circulation for the purpose of maintaining the gold standard. This would be Rx. 23,000,000 worth of gold, or, say, £15,000,000 sterling. I believe that the gold standard would be maintained effectively with a smaller amount of gold, and that gold in excess of £15,000,000 in the active circulation would be unnecessary and might be a source of positive inconvenience. When we had arrived at normal conditions the yearly additions of gold required for the active currency would be small, and would probably not exceed £200,000 yearly.

15. It is more than probable, however, that the substitution of a gold standard for a silver standard would lead to an increased use of gold instead of silver for hoarding. On the question of the extent to which this substitution of gold for silver would ultimately be carried I am unable to offer any opinion.

Silver is at present used for hoarding (as a store of value), and for ornament. When it ceased to be the monetary standard of India it would be less suitable for hoarding, but it might continue to be largely hoarded in the form of rupees, and on the other hand, silver bullion would fall considerably in value and price, and its greater cheapness would tend to increase its use for purposes of ornament. It must be uncertain to what extent gold would begin to take the place of silver for hoarding and ornaments after the establishment of a gold standard, but in the first instance, at any rate, the extent of the change would probably not be considerable.

It is held by some that if a gold standard were established in India a great deal of the gold that is now hoarded or held in the form of ornaments would be brought to the Mints, coined and put into circulation. I have never been able to accept this theory. Why should a Native of India give up his habit of hoarding, or an Indian lady cease to take a pleasure in the wearing or possession of gold ornaments, merely because the Government of India had established a gold standard?

There is, however, a large amount of gold imported into this country every year, and there must always be a considerable amount of gold in the hands of bullion dealers. I think that if we had an effective gold standard it is very likely that all this gold, which is, as it were, waiting till the time for absorption arrives, would be coined and become part of the circulation for the time. To facilitate this result I would propose not to charge any seigniorage on gold coins.

16. In this paper I have dealt with the question of a gold standard for India from a practical point of view. Many objections, founded on considerations not of an immediately practical nature, may be raised to the introduction of a gold standard into India. Some of these objections appear to me to possess weight, others I believe to be imaginary. I have no hesitation in saying that an international agreement for the free coinage of both silver and gold and for the making of them full legal tender at a fixed ratio would be far better for India and all other countries than the establishment of the single gold standard, even if the latter course be possible.

Under the former system the worst result that could happen would be the disappearance of one of the metals from circulation, but this would only happen by the other metal taking its place and gradually driving it out, and under such circumstances all countries would have the same standard.

The general adoption of the system of double legal tender would be a perfectly safe measure and would be a final settlement of the question. The attempt to establish a general gold standard is not free from risk. History affords instances of the establishment of a gold standard in one or more countries, but sooner or later the standard was changed. It may, however, be that the conditions of gold mining have so greatly changed that a gold standard can now be maintained for an indefinite period.

17. With regard to the question of the expediency of attempting to introduce a gold standard into India, I do not go further than saying that if a general agreement for the free coinage of both silver and gold at a ratio cannot be obtained, and if the United States does not adopt free coinage of

silver, I think an attempt should be made to establish a gold standard in this country.

I believe that a perpetuation of the difference of monetary standards between England and Her Indian Empire would be a source of incalculable mischief to both England and India, and that such a state of things should not be accepted until it has been proved by actual experiment to be absolutely unavoidable.

LI.

NOTIFICATION BY THE GOVERNMENT OF INDIA, FINANCE AND COMMERCE DEPARTMENT, No. 2662, DATED 26TH JUNE 1893.

The Governor General in Council hereby announces that until further orders gold coins and gold bullion will be received by the Mint Masters of the Calcutta and Bombay Mints respectively in exchange for Government rupees, at the rate of 7·53344 grains troy of fine gold for one rupee, on the following conditions :—

(1) Such coin or bullion must be fit for coinage.
(2) The quantity tendered at one time must not be less than 50 tolas.
(3) A charge of one-fourth per mille will be made on all gold coin or bullion which is melted or cut so as to render the same fit for receipt into the mint.
(4) The Mint Master, on receipt of gold coin or bullion into the Mint, shall grant to the proprietor a receipt which shall entitle him to a certificate from the Mint and Assay Masters for the amount of rupees to be given in exchange for such coin or bullion payable at the General (Reserve) Treasury, Calcutta or Bombay. Such certificates shall be payable at the General Treasury after such lapse of time from the issue thereof as the Comptroller General may fix from time to time.

NOTIFICATION BY THE GOVERNMENT OF INDIA, FINANCE AND COMMERCE DEPARTMENT, No. 2663, DATED 26TH JUNE 1893.

In supersession of the Notification by the Government of India in the Financial Department, No. 3287, dated the 28th October 1868, which is hereby cancelled, the Governor General in Council is pleased to direct that, from and after the date of this Notification, Sovereigns and Half-sovereigns of current weight coined at any authorized Royal Mint in England or Australia shall be received in all the Treasuries of British India and its dependencies, in payment of sums due to the Government, as the equivalent of fifteen rupees and of seven rupees and eight annas respectively.

NOTIFICATION BY THE GOVERNMENT OF INDIA, FINANCE AND COMMERCE DEPARTMENT, No. 2664, DATED 26TH JUNE 1893.

In exercise of the powers conferred by the Indian Paper Currency Act, 1882, as amended by the Indian Coinage and Paper Currency Act, 1893, and of all other powers enabling him in this behalf, the Governor General in Council is pleased to direct that currency notes shall be issued by the Head Commissioner of Paper Currency, Calcutta, and by the Commissioner of Paper Currency, Bombay, on the requisition of the Comptroller General, in exchange for gold coin or gold bullion at the rate of one Government rupee for 7·53344 grains troy of fine gold. Sovereigns and Half-sovereigns of current weight coined at any authorized Royal Mint in England or Australia shall be taken as the equivalent of fifteen rupees and of seven rupees and eight annas respectively.

LII.

EXTRACT FROM A MINUTE BY THE HONOURABLE SIR DAVID BARBOUR, K.C.S.I., DATED 16TH OCTOBER 1893.

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5. While I am of opinion that the Government of India might, under ordinary circumstances, undertake to make a grant of 500 lakhs yearly for Railways and Irrigation, the question of the amount of money that the Government of India can undertake to find during the coming year must be specially considered with reference to the present financial position and the prospects of exchange.

The Budget Estimates of the current year showed a deficit of Rx. 1,595,100. Since the Estimates were prepared allowances have been sanctioned for European and Eurasian officers not domiciled in India to compensate them in some degree for the fall in the rate of exchange, and we have undertaken to pay furlough allowances at the rate of 1*s*. 6*d*. per rupee. These concessions add materially to the expenditure so long as the rate of exchange with England is below 1*s*. 6*d*.

On the other hand, no steps have been taken to secure financial equilibrium except the stoppage of the free coinage of silver with the intention of ultimately introducing a gold standard into India, and in the hope that the permanent rate of exchange might be fixed at not less than 1*s*. 4*d*.

6. If the stoppage of the free coinage of silver had resulted in raising the rate of exchange to 1*s*. 4*d*., our most pressing financial difficulties would have been relieved.

The rate of exchange has not, however, risen to 1*s*. 4*d*., and though the Secretary of State has practically ceased to draw bills for three months, the demand rate of to-day in Calcutta does not materially exceed 1*s*. 3*d*. It is impossible to say what the course of exchange will be during the next few years; but I have no hope that the Secretary of State will get an average rate of 1*s*. 4*d*. during the remainder of the present year, and the future is so uncertain that it is impossible to base our action on the assumption that the average rate of exchange will rise as high as 1*s*. 4*d*. during the financial year 1894-95.

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9. We have taken the preliminary steps towards introducing a gold standard into India, and it is of vital importance that our policy should be carried to a successful issue. Before the Indian mints were closed to the free coinage of silver, it was possible to hope that that measure would of itself lead to the rise of the rate of exchange to 1*s*. 4*d*., that we should only have to wait while a gold reserve accumulated under trade influences, and that the gold standard could be introduced into India with but little trouble. It seems impossible any longer to entertain the hope that the mere closing of the Indian mints to silver will lead to the accumulation of a gold reserve, and bring about the effective establishment of a gold standard without its being necessary for us to take any further steps in the matter.

According to present appearances the establishment of a gold standard will be a work of time and labour, involving sacrifices so heavy that they may tax our resources to the utmost.

10. On the other hand, the speedy establishment of the gold standard is most desirable. We have now neither a gold standard nor a silver standard; our trade with China suffers severely and our trade with gold standard countries has not so far been appreciably facilitated. The measures taken to improve the position of the European services (the grant of exchange compensation allowance and of favourable rates for the payment in England of rupee pensions and furlough allowances) have, in round figures, converted a rupee liability of Rx. 4,380,000 into a sterling liability of £3,312,000. This conversion, at favourable rates, of rupee liabilities into sterling liabilities has added materially to our rupee expenditure, and the additional expenditure will increase with every fall in the exchange value of the rupee, and must aggravate our financial difficulties so long as we are unable to effectively establish the gold standard.

11. The establishment of the gold standard in India has been undertaken under specially unfavourable conditions.

In the first place, the drawings of the Secretary of State are very great in proportion to the magnitude of India's trade and of her total revenue, and, as I have already shown, these drawings do not constitute the whole of the burden of this nature which falls on that trade.

In the next place, we are attempting to introduce, or hoping that we may be able to introduce, a gold standard at a higher rate of exchange than that which prevailed when the Indian mints were closed to the free coinage of silver—a task the magnitude of which it is impossible for us to measure.

In the third place, we are trying the experiment when our finances are seriously embarrassed, and when expenditure materially exceeds revenue.

Considering the magnitude of the interests at stake, and the difficulties we have to meet, we ought not to throw away a single chance, or to do anything which might delay success by a single month. The longer the delay in establishing the gold standard, the weaker will be the confidence of the general public in our ability to make the gold standard effective; and the greater our loss of credit, the more difficult will our task become.

12. Various devices have been put forward under the impression that they would solve the difficulty, such as a refusal by the Secretary of State to sell drafts at a lower rate than 1*s*. 4*d*., or the imposition of an import duty on silver. The former proposal appears to me a most dangerous one. The Secretary of State possesses no power to regulate the rate of exchange on India by manipulating the sale of his drafts. He has certain sterling payments to make in London, and he must draw bills to an amount sufficient to enable him to do so, and he cannot sell the necessary amount of bills unless he is prepared to let them go at the rate at which the market will take them. If exchange will of itself rise to 1*s*. 4*d*., we need not interfere to fix a minimum of 1*s*. 4*d*.; if it will not rise to that rate under ordinary market influences, the only result of withholding bills will be to give a temporary stimulus to exchange, with the result of causing a more than proportionate reaction at a subsequent period. An import duty on silver would now have no more direct effect in raising exchange than an import duty on piece-goods or any other commodity,—perhaps not so much,—and it would be attended with evils which would seriously counterbalance any advantage that could be expected from such a measure. There is, in fact, no royal road to the establishment of a gold standard in India, and specially to the establishment of it at a higher rate of exchange than that which prevailed when the Indian mints were closed.

13. The only sound and certain method of establishing the gold standard is to be found in the necessary reduction of the rupee currency. We know that there are many coined rupees in existence which may be poured into that currency, and we can neither say what the total amount may be, or what length of time it may take to make the necessary reduction. Nevertheless the difficulty must be faced, and the sooner it is faced the better. There can be no real reduction of the currency until we possess a surplus of revenue over expenditure which may be devoted to this purpose, and in my opinion the primary duty of the Government of India is to re-establish financial equilibrium either by reducing expenditure or by imposing additional taxation. Any surplus that would then be available should be devoted to the withdrawal of the redundant currency. The process may be tedious and difficult, and involve a heavy sacrifice, but if we persevere in this course we may hope that the gold standard will ultimately be established, and by no other process can we make certain of arriving at the desired result.

14. The task of establishing a gold standard will be facilitated if, at the same time, we can succeed in reducing the total amount of the remittances to England, and in any case we ought scrupulously to avoid increasing them. However beneficial the construction of new Railways may be, we must recollect that a heavy expenditure from borrowed money on Railways would not only involve, for a time at least, an increase of net expenditure and thus render it more difficult to establish financial equilibrium, but would add permanently to the amount that has to be remitted to England, and thus directly tend to depress exchange, and counteract any efforts we may make towards the establishment of the gold standard.

The measures which the Government of India should adopt are, in my opinion, as follows :—

(1) The immediate establishment of financial equilibrium, whatever the cost may be.

(2) The devotion of any surplus that may be obtained to the reduction of the number of coined rupees in circulation, such reduction of the currency to be carried as far as may be found necessary to produce the desired result.

(3) The reduction of, or at least the avoidance of any increase to, the Home charges and the total remittances to England—a process which necessarily involves the application of a strict limit to the construction of Railways and Canals from borrowed money, and which, if the Famine Grant is suspended, will necessitate a contraction of the present Public Works programme.

Objections may be raised to the stringent proposals which I have just stated, and especially to the proposal to restrict the expenditure of borrowed money on Railways, but we can no longer postpone with safety the task of facing the position before us in the hope that something may turn up which will enable us to avoid fulfilling an unpleasant duty ; and the Government of India fail to take steps to place the finances in a sound condition, and shrink from adopting the only means which can be depended on for effectively establishing the gold standard, I apprehend that consequences will follow which may be of the most serious nature.

LIII.

MINUTE, DATED THE 17TH OCTOBER 1896, BY THE HONOURABLE SIR JAMES WESTLAND, DISCUSSING THE PROPRIETY OF ALTERING THE RATE AT WHICH GOLD SHOULD BE TAKEN IN EXCHANGE FOR RUPEES FROM 1s. 4D. TO 1s. 3D.

In my Financial note upon the proposals relating to Railway construction which are now before the Government of India, I have shewn that the direct consequence of the transactions, which will pass through the Accounts of Government, will be the reduction of the Secretary of State's drawings from their present figure, about 17 millions sterling, to 14 or 14½ millions, and I have alluded to the possible evil consequences of that reduction upon trade and commerce. I regret to say that since I wrote that note, the probabilities of heavy famine expenditure have greatly increased, and there is now, more than ever, reason to say that this estimate of 14 or 14½ millions of drawings for next year is the highest we can make.

2. I intentionally avoided entering upon a difficult and obscure subject closely bearing upon this question, *viz.*, whether in the coming year the scarcity which is impending over India would have any considerable effect in reducing or increasing the balance of trade; or whether it would so alter that balance as to fit it more nearly to the new restriction of the amount of Council Bills. There is no doubt that India will have less available produce under one or two of its chief articles of export, but, on the other hand, the means available to the people for expenditure on imports (for example on Manchester goods) will be less, and imports also will for this reason be restricted. This was the view I took, but considering the obscurity of the details of these operations, I thought it wisest to avoid speculations on the subject; and to assume no alteration either in the way of decrease or in the way of increase in the balance of trade.

3. There is, however, one aspect of the new programme which will intensify the effect of the restriction of Council drawings. Over and above the transactions connected with Railway construction, which pass through our accounts, there is the following anticipated outlay during the next three years :—

	000 Rx.
1. Construction of Branch Line Companies	7,78,75
2. Construction of Assisted Companies	2,41,00
3. Godavery Valley Railway	3,07,25
	13,27,00
4. By Native States	2,91,90
TOTAL .	16,18,90

Now, even if we assume that the whole of this last item will be found out of capital existing in India, yet the bulk of the first three items, that is, four or four-and-a-half crores a year, will be practically European capital invested in Railways in this country. I say "practically," because for purposes of remittance the same effect is produced by the diversion towards investment in this country, of money (say the savings of Europeans) which would otherwise be sent out of India for investment in England or elsewhere, as is produced by the remittance from England, for investment here, of capital accumulated in England.

4. All these transactions are on a much larger scale than anything of which we have had recent experience, and they all create a demand for remittance from England to India (that is, for Council Bills). So that we may anticipate that not only will the amount of Council Bills have to be greatly reduced in respect of one portion of the programme, but at the same time, an enlarged demand for them will be created by another part of it.

5. In the note to which I have referred, I drew attention to the evil effects upon trade of a demand for remittance, which might have a sudden and considerable effect in the way of raising the exchange value of the rupee. It will be seen that that effect is enhanced by the considerations now set forth. I desire therefore to suggest, as a measure for the prevention of these anticipated strains, a revision of that portion of our currency measures undertaken upon 26th June 1893, which fixed at fifteen rupees the rate at which sovereigns were to be received in our Treasuries and in our Currency Department. I would change it now to Rs. 16, being an exchange of 1*s.* 3*d.* instead of 1*s.* 4*d.*

6. The introduction of a rate for exchange of sovereigns had a two-fold object. It was first of all intended to set a limit upon any excessive rise in the exchange value of the rupee, and in the second place, it was intended to lay the gradual foundation of a gold currency.

7. The first aspect of the matter was dealt with in paragraphs 147 to 150 of the Herschell Committee's report:

Provision against a sudden great rise in exchange.

"147. It appears to be desirable that any such scheme should afford security against any sudden and considerable rise of exchange. If the closing of the mints were thought likely to lead to such a rise, the opposition to the measure would, no doubt, be greatly augmented. In all probability the cessation of free coinage of silver would be immediately followed by a fall in the price of that metal. If at the same time exchange rose considerably, the divergence between the rupee and its intrinsic value would become at once very marked. The difficulty of maintaining the rupee at its higher exchange value might be increased, and the apprehensions of disaster which are entertained, even if they be exaggerated or unreal, would be intensified.

"148. Moreover, the rise in exchange would be calculated to lead to a fall in the price of Indian produce. And, if this were seen to follow, and believed to be caused by the action of the Government, public opinion might be disturbed and the situation might become critical. The view has been expressed that, even though the native producers might not be likely to be actively hostile to a scheme which left prices unaffected, they would be far from indifferent, and the state of things might become dangerous if prices began to fall very sensibly.

"149. What, then, would be the effect of the scheme suggested by the Government of India? Closing the mints, even if the Government of India were to issue the proposed notification that gold coins would be made legal tender at a rate of 13½ rupees to the sovereign, might bring about a rise in exchange to the level thus indicated, *viz.*, 1*s.* 6*d.* per rupee. It is true that those who think that exchange would not for a considerable time rise at all, and that even the existing ratio might not be maintained, may be right in their anticipations. But it must be admitted that on such a point no one can predict with certainty; exchange might rise suddenly and considerably, unless the Government were to interfere actively to prevent it; and the public would not feel any certainty as to the course they would take.

Ratio for coinage of rupees on tender of gold at the mints.

"150. The scheme might, however, be so modified that the exchange could not immediately rise much above its present level. It might be provided that the mints should be closed to the public for the coinage of silver, but should be used by the Government for the coinage of rupees if required by the public in exchange for gold, at a ratio to be fixed in the first instance not much above that now prevailing, say 1*s.* 4*d.* the rupee. Any fear of a considerable rise would thus be allayed, and any evil effects of such a rise would be prevented. Moreover, even if silver fell, the divergence between the nominal and the intrinsic value of the rupee would not be so great as if exchange at the same time rose. There would be these additional advantages: first, the currency would not cease to be automatic; next, it would be a less violent step than closing the mints altogether. They would practically remain open, subject to certain conditions. It would be the smallest departure from the *status quo* which could accomplish the object the Government of India have in view. Besides these advantages there would be the further gain, that it would still leave the volume of the rupee coinage dependent on the wants of the people of India, and the fact that rupees might continue to be coined would tend to prevent silver falling as much as would be the case if it were supposed that the coinage of rupees was to cease altogether."

8. In paragraph 156 the Committee made the recommendation that gold should be received "at a ratio to be fixed, say, 1*s.* 4*d.* per rupee":

"156. But we consider that the following modifications of these proposals are advisable. The closing of the mints against the free coinage of silver should be accompanied by an announcement that, though closed to the public, they will be used by Government for the coinage of rupees in exchange for gold at a ratio to be then fixed, say, 1*s.* 4*d.* per rupee, and that at the Government treasuries gold will be received in satisfaction of public dues at the same ratio."

9. This recommendation was adopted, and it will be sufficient to quote the following from the speech of the Marquis of Lansdowne on the passing of the Bill for carrying out the measures:—

"The step recommended by the Committee will not produce any violent disturbance of values. It will, to use the words of Messrs. Farrer and Welby, 'not materially alter the present relations between debtor and creditor, but, on the contrary, prevent those relations being altered in the future by a further fall.'

"It has also this further advantage, that it provides an automatic means whereby it will be possible to prevent the closing of the mints from leading to a sudden and violent disturbance in the rate of exchange. I refer of course to the provision that any person may hereafter bring gold to the mints and obtain for it rupees at the rate of 1*s.* 4*d.* per rupee, and that gold may be tendered in payment of Government dues at the same rate, which is equal to one sovereign for Rs. 15. I need scarcely explain that the effect of this will be that, should exchange show a tendency to rise in the open market beyond the rate originally fixed; should it, for example, rise to a ratio giving, let us say, 1*s.* 4½*d.* as the equivalent of the rupee, or something less than Rs 15 for the sovereign, it will at once become advantageous to bring gold to the mint, and to exchange it at the full rate of one sovereign for Rs. 15. In this manner, by a self-acting process a rise beyond the level which has been provisionally indicated will be rendered impossible so long as that limit remains in force."

10. As regards the second aspect of the matter, *viz.*, its bearing upon the ultimate establishment of a gold currency, the following quotation from a minute of two of the Members of the Committee may be transcribed:—

"7. This closing of the mints, however, is only the first step in the process contemplated by the Indian Government, and that process will not be complete until gold is made full legal tender, and is received into the Indian currency as freely as gold is received in England, or as silver is now received in India. This may be effected either by the free coinage of gold at the Indian mints or by the free reception under arrangement with the Imperial Government of gold sovereigns coined in England or in Australia as legal tender currency of India. When this is done, the change will be complete, and India will then have a gold standard of value, and a gold automatic currency, the quantity of which will depend on the demand for it. What that demand may be is uncertain. Sir D. Barbour estimates the outside of the quantity needed to maintain the gold standard at 15,000,000*l.*, or one-fifth in value of the estimated present rupee currency. But, whatever the precise amount, the gold currency is not expected to be more than a small fraction of the actual currency in circulation.

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"14. At any rate, the expense necessary to procure and retain the requisite amount is one that cannot be avoided by any Government which desires to maintain the credit of its currency, and will be insignificant compared to the loss of which the Indian Government now complain.

"15. Under these circumstances, we could not join in the recommendation contained in the report without at the same time recommending that the Government of India should, in view of the ultimate adoption of the whole of their plan, be prepared to secure the convertibility of their token silver currency, and should with that object accumulate a sufficient reserve of gold."

11. Now, first I have to remark that the Committee did not attach any importance to the precise ratio of 1*s*. 4*d*. Their recommendation was worded thus; a ratio to be fixed, *say*, 1*s*. 4*d*. They even contemplated its being altered after being first fixed, with the sanction only of the Secretary of State (*vide* paragraph 151), though the direction in which occasion would arise for its alteration was considered by them to be rather that of a higher than of a lower exchange.

"151. The Government of India have expressed the opinion that there would be no practical difficulty in carrying such a modified scheme as this into effect. It would not, of course, be essential to the plan that the ratio should never be fixed above 1*s*. 4*d*.; circumstances might arise rendering it proper, and even necessary, to raise the ratio; and the Indian Government might be empowered to alter it with the sanction of the Secretary of State. Such a scheme would, indeed in the first instance, be tentative, and would not impede farther action if circumstances should render it desirable."

12. Sir David Barbour similarly, when introducing the legislation, intimated that the establishment of the 1*s*. 4*d*. rate was temporary only, and that the settlement of the permanent rate was left for "the light of future experience."

"It is not intended to do more at present than stop the free coinage of silver at the Indian mints, and, as a provisional arrangement, to provide for the issue of rupees at those mints in exchange for gold at the rate of 1*s*. 4*d*. per rupee. The making gold coins legal tender, the settlement of the permanent rate of exchange between gold and the silver rupee, and the other measures necessary for the final and effective establishment of a gold standard in India, will be provided for by future legislation and in the light of future experience."

13. This particular ratio of 1*s*. 4*d*. was selected on the following considerations: first, it was "not much above that now prevailing" (paragraph 150 of report). Second, it was considered that a lower rate would not relieve the Government from its financial difficulties. Lord Lansdowne said in the Legislative Council:—

"These precautions will, I hope, go far to allay the apprehensions of those who mistrust the idea of any attempt by Government to increase artificially the value of its currency. Upon the other hand, the provisional ratio which the Committee has recommended, and which may, should circumstances hereafter require it, be raised, is sufficiently high to afford the Government of India immediate and substantial relief from its most pressing difficulties. Had the ratio been fixed lower in the first instance, I do not see how it would have been possible for us to avoid adding to the taxation of the empire."

[Here again we see the rate talked of as a provisional one.]

14. We know now how much foundation there was for the feeling of uncertainty as to the ultimate results of their action to which the Committee gave expression. Their anticipation was that the rate of exchange might (not to say, would) immediately rise, and that it was necessary to set a limit to that rise. Had they foreseen what we now know to be the result of the measures that were taken in 1893, they would certainly not have gone so high as 1*s*. 4*d*., and to me it seems undoubted that the considerations which induced them to recommend that rate, would, if they had more clearly foreseen the consequences, have recommended, much rather, the rate of 1*s*. 3*d*. So far as our experience during the past three years has shewn (apart from the considerations special to the present Railway proposals), the ordinary course of trade seems to be establishing a rate that may within a short time rise to 1*s*. 3*d*., but is likely to take a long time to rise to 1*s*. 4*d*.

15. I do not regard a question of this kind as one on which we ought to be impatient for a final result. Three, or four, or five years are but a short space of time in the history of an Empire, or of its currency and trade move-

ments. This consideration has withheld me hitherto from formally raising the question whether it was wiser to aim at a rate of 1*s.* 3*d.*, which might be soon attainable, or to wait a possibly considerable time for the higher rate of 1*s.* 4*d.*, although I had it in mind even before the rise of exchange that took place last March. But now that I have before me precisely the contingency which the Herschell Committee desired to guard against (*viz.*, a sudden rise in the rate of exchange), and when moreover I see that the Herschell Committee themselves, if they had had in 1893 the knowledge which we now possess of the result of their action, would, so far as I can read their mind from their report, have preferred the rate of 1*s.* 3*d.* to that of 1*s.* 4*d.*, and when I see moreover that the 1*s.* 4*d.* rate was treated, on all sides, as a provisional one only,* I think it open to me now to raise the question. The dread of "pressing difficulties" arising in connection with our revenue account is now no longer present with us. We know on the contrary that a settled rate of 1*s.* 3*d.*, if it could be attained, would be to us a haven of rest, in which we would immediately consider not any question of "adding to the taxation of the Empire," but how best to select among the methods of reducing it.

16. If the question may be reopened, I think the time is extremely opportune for doing so. The coast is clear for action, for I think not a single sovereign has been received by us under the 1*s.* 4*d.* rule, so that we are not bound by any past transactions of our own. Moreover, the present rate of exchange being only about 1*s.* 2½*d.*, we may take for granted that not a single forward exchange engagement has been made which will be in any way affected by our reducing the maximum limit from 1*s.* 4*d.* to 1*s.* 3*d.* Still further, we have before us operations, created by a new policy of our own which will in the present state of circumstances give rise to the very evils which the Committee's fixed rate was intended to prevent, unless we, following the line of policy they laid down, now apply the proposed revised rate of 1*s.* 3*d.*

17. That the danger is not unreal will, I think, be evident from the following considerations. Last year, in the middle of October, the Bank of Bengal rate was 3 per cent., and from then till the end of the financial year the Secretary of State drew for £7,500,000; the result was that the rate of exchange went up from 1*s.* 1¾*d.* in October to 1*s.* 2¾*d.* in March. This year the Bank rate is 6 per cent., that is, we begin with a tighter market; the Secretary of State, according to his programme, will draw for £6,900,000 only, during the same period. We start with a present exchange of about 1*s.* 2¼*d.*; so that, apart from any effect the scarcity may have upon trade, the effect upon exchange will be more intense than last year, and we may confidently expect a rise in February or March beyond 1*s.* 3*d.* We contemplate announcing at that moment the intended short drawings of the year 1897-98. Should we not prepare against this at once by establishing our gold price, for treasury, and currency at 1*s.* 3*d.*?

18. The result will be that both traders and ourselves, and also those who are interested in financing our Railway schemes, will contemplate with equanimity the short drawings of the Secretary of State, and the difficulties

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* Mr. Bertram Currie, one of the Committee, in a separate minute, urged that no rate should be fixed until experience had shewn the actual result of the closing of the mints. It was the fear of an immediate and serious rise which induced the Government to announce the rate at the time of declaring their policy.

connected therewith. In obedience to the laws of commerce, the excess remittances which have to be made from England to India will come out in the shape of sovereigns or of gold; they will be presented to us, like Council Bills *are*, in exchange for rupees, but they will remain in our treasuries a reserve available for our treasury and currency purposes in the same way that coin is available. For there cannot be a doubt that every sovereign will find ample field for use as current coin at Rs. 16, since we shall certainly never reduce below 16 the price at which we are ready to exchange them for rupees. So long as the conditions of excess trade demand for remittance from Europe remain in force, gold will continue to come out to this country at this rate of 1*s*. 3*d*.; and if at any time they are reversed (as they are not likely to be for some years at least) the gold coin, whether left in the hands of the public or remaining in our treasuries, will find its way home, either directly or indirectly, in relief of the deficiency of trade remittance from England. We can in no event be worse off than we are at present, and we may and probably will be better off.

19. I wish to explain this last sentence more fully, and I shall use the phrase "ordinary course of exchange" as meaning the course which exchange will take if no alteration is made in the 1*s*. 4*d*. limit.

Exchange will in the future in its ordinary course either be below 1*s*. 3*d*., or between that figure and 1*s*. 4*d*. While it is in the first of these stages, it is of no practical consequence whether the limit is at 1*s*. 4*d*. or at 1*s*. 3*d*. But while it is in the second stage, we will, if matters remain as they are, be exposing commerce and trade to the risks attendant upon a considerable rise of rate, while if we alter the limit, we shall not only save that risk, but shall be making definite progress to a gold currency.

20. If the circumstances of the future are such that in ordinary course the rupee would rise above 1*s*. 3*d*. and thereafter again fall below it, then if we make no alteration in the limit, we shall have exposed commerce first to a rise and then to a fall of exchange, whereas if we do alter the limit we shall have maintained the rate permanently at 1*s*. 3*d*. during the whole period of what would otherwise have been the rise, and also during so much additional time as it takes to absorb the gold that we shall have laid up during the period of the rise. For, so long as we hold a single sovereign in our treasuries which we can remit to him, the Secretary of State need not sell a single Bill under the rate of 1*s*. 3*d*.

21. From every point of view therefore the change from 1*s*. 4*d*. to 1*s*. 3*d*. has become desirable in the interest both of fixity of exchange and of the ultimate establishment of gold standard. From one point of view only can considerations affecting Government be urged against it. With an exchange of 1*s*. 4*d*., *other things being the same,* our revenue account is better by some two crores of rupees than with an exchange of 1*s*. 3*d*. But then the whole question is whether other things do remain the same. This involves the whole consideration whether 60 crores of taxation and the like, the rupee being worth 1*s*. 4*d*. in gold, are or are not a smaller burden than 62 crores when the rupee is worth 1*s*. 3*d*. in gold,—a question most difficult and abstruse. I can only say (and in this I speak only for myself, but am repeating opinions I have given expression to for a long time past) that in my opinion our financial difficulties of the past twenty years have arisen more from a falling rate of exchange than from a low rate of exchange; that is to say, using the illustration already given, from the fact that we were obliged

to raise the amount of taxation from 60 crores to 62 crores before the altered value of silver had sufficiently operated upon prices, rates of wages, and other economic circumstances to make the new 62 crores of burden less than the old 60. It is certainly true that falling exchange has compelled us to resort more than once to increased taxation, but it is certainly also true that falling exchange has had a great deal to do with the continually increasing produce of each of our sources of revenue.

22. So long as the "ordinary course of exchange" for the future would give us less than 1*s*. 3*d*. we suffer nothing, even in our revenue account, from adopting 1*s*. 3*d*. as our rate for the receipt of gold. If the "ordinary course of exchange" would give us more than that, then I think that the advantage of fixity of exchange, and the probable earlier establishment of gold currency, is, in pursuance of the policy of the currency reform of 1893, a greater advantage than any we are likely to derive from the enhancement from 1*s*. 3*d*. to 1*s*. 4*d*. of the value of our rupee for the purposes of payment of our sterling liabilities. The Herschell Committee rejected the proposal to wait for a possible future rate of 1*s*. 6*d*., and thought an earlier (they anticipated an immediate) rate of 1*s*. 4*d*. preferable to all the interests concerned. For the same reason, adopting their views, but accepting the light of later experience, I consider it preferable to take an early (and possibly an immediate) rate of 1*s*. 3*d*. rather than a rate of 1*s*. 4*d*., which we may have long to wait for.

23. It is in view of the great difficulties we shall have to meet next year that I press the consideration of this proposal. We shall have to finance a famine (how big a famine we do not yet know), and we shall have at the same time to finance a much larger programme of Railway construction than has yet been attempted. What the difficulties of a famine taken alone may come to we can see from the figures of 1877-78, a year in which the direct expenditure upon famine was Rx. 5,345,775. The drawings of the Secretary of State in the years before and after that were as follows :—

	£
1875-76	12,389,613
1876-77	12,695,799
1877-78	10,134,455
1878-79	13,948,565
1879-80	15,261,810

But as matters then stood the deficiency in the Secretary of State's capacity to offer Council Bills was easily made up by remittance of silver to India, and for the above years the following are the net imports of that metal :—

	Rx.
1875-76	1,555,355
1876-77	7,198,872
1877-78	14,676,335
1878-79	3,970,694
1879-80	7,369,742

The safety-valve then open, the necessity of which is shewn by the extraordinary figure of 1877-78, is now closed, and the figures therefore convey a warning of the difficulties we may next year have to meet. For the only possible safety-valve now is the remittance of gold and not of silver, and that safety-valve will not be open under present arrangements until our foreign trade has first passed through the period of disturbance described in the extract quoted in paragraph 7 above, which will be necessary for its adapting itself to a rate of exchange which is nearly two pence in excess of the present rate.

24. With the rate now fixed at 1*s.* 3*d.* little or no inconvenience will arise, either to us or to commerce, from any reduction or even from any stoppage of Council Bills. We shall have linked ourselves, for the time at any rate, to the gold standard of England; and if our remittances fall in arrear, it will not be an arrear that we have to make up in the future, for the trade remittance will at once commence to be carried on by gold, and we shall possess, in gold in India, the means of paying off the arrear at any time we please.

25. Famine relief is a kind of expenditure which cannot easily be measured beforehand, and yet has to be met without delay, when the necessity arises. The task which is before us of financing next year both the anticipated famine and our Railway programme will under any circumstances be one of the greatest difficulty, and it is one which in my opinion will be impossible, or at least will be productive of serious consequences unless, by altering as I propose the rate at which we receive gold, we loose the link which at present binds together our operations and those of trade remittance, and thus set ourselves free to consider these questions of resource solely as they affect our own operations, without having to consider at the same time the disastrous effects they may have upon commerce. I think it is a necessity of next year's finance that the Secretary of State should be in a position to reduce, or even discontinue his drawings for a time, without feeling that in doing so he may be gravely disturbing the course of trade or may be incurring sterling liabilities with only rupee assets to set against them.

26. I conclude by saying that, although personally I considered this subject long before I worked out the actual financial consequences of our Railway policy, I would not have thought the time had come to bring it forward unless I had found the immediate necessity arise in connexion with these consequences. The reduction from 1*s.* 4*d.* to 1*s.* 3*d.* of the rate at which we are prepared to receive gold in our treasuries and in our Currency Department seems to me the one condition by which our Railway policy can be reconciled with the conditions of both of our own remittances and of trade remittances; and I propose it not only because it averts all the inconveniences (not to use a stronger word) that may arise in that connexion, but because it makes our Railway policy an instrument for carrying forward, and perhaps ultimately carrying to a successful conclusion, the policy of currency reform adopted by the Government of India on the recommendation of the Herschell Committee.

27. It should be borne in mind that the opportunity for action will have passed, if no decision is come to by the time the rupee rises in ordinary course to 1*s.* 3*d.*, because in that event any possible action will involve a modification of existing commercial engagements.

LIV.

Minute, dated 22nd October 1896, by Mr. J. F. Finlay, on the proposed alteration from 1s. 4d. to 1s. 3d. of the rate at which gold should be taken in exchange for rupees.

1. The Honourable Member having spoken to me on the subject of the proposal in his note of 17th October 1896, I mentioned that I thought the proposed measure was very inexpedient, and in view of the importance of the matter, which cannot be exaggerated, I asked him for permission to criticise the proposal with the same freedom as would be open to me if the proposal had come from an outside source instead of from him. This permission he kindly gave.

2. It will be seen from his note that the Honourable Member had come to the conclusion that it is desirable to substitute 1s. 3d. for 1s. 4d. the rupee as the rate at which we are prepared to issue rupees in exchange for gold, altogether apart from and independently of the special circumstances connected with the programme of Railway construction and the probability of famine, which lead him to make the proposal at the present time.* It will therefore be convenient to divide my remarks into two parts, the first treating of the subject on general permanent considerations, and the second taking into account the special circumstances of next year.

I.—General permanent considerations.

3. I entirely agree that the main object of the currency policy is to attain a stable exchange, and it would be wise to adopt for the rate at which gold shall be received in the transition period and at which the ultimate establishment of the gold standard shall be effected, any rate of exchange which may seem the most likely to secure and maintain stability.

4. To trade and the mercantile community it is a matter of perfect indifference whether the stability is reached with exchange at 1s. 3d. or 1s. 4d. or 1s. 6d.: in this opinion also I understand that I am in agreement with the Honourable Member.

5. To the official community and other Europeans drawing salaries in rupees a higher rate of exchange is of course preferable to a lower; but I am strongly of opinion that the preference of this class for a high exchange should be allowed almost no weight in settling the question, and that their interests should be entirely disregarded if they clash with the interest of trade and of the Government: at the same time it is necessary to guard against the overstrained conscientiousness which would refuse or hesitate to adopt a conclusion on other grounds because it happens to suit also the personal interests of those who are privileged to give advice in the matter.

6. There remain the interests of the Government, and, which is the same thing, of the general taxpayer. The Government will certainly be able to pay its way with exchange at 1s. 3d., and as it has already had to frame its estimates at a lower rate, it will not feel any strain or difficulty in adapting

* After I had written and sent to Press the bulk of this note the Honourable Member told me that if the prospect had continued to be that exchange would rise gradually and slowly to 1s. 4d., he would not have proposed to change the rate; and that the special circumstances of next year therefore constitute his determining reason for making the proposal as well as for his making it at the present time.

J. F. F.,—23-10-96.

its finances to that rate in the ordinary years. But the required equilibrium will be secured only by maintaining taxation at a level higher by two crores than if the higher rate of 1*s*. 4*d*. were established.

7. This objection to the proposal is noticed in paragraph 21 of the Honourable Member's note. I venture respectfully to question the correctness of the conclusion drawn in that paragraph, that 62 crores of taxation with exchange at 1*s*. 3*d*. is no heavier burden than 60 crores with a rate of 1*s*. 4*d*. As there said, the question is most difficult and abstruse. The one point absolutely beyond dispute in that paragraph is that with the lower rate the interest and other sterling charges will cost two crores of rupees more to discharge. The rest is open to argument.

8. The Honourable Member is of opinion that falling exchange has had a great deal to do with the continually increasing produce of each of our sources of revenue. The opinion that falling exchange benefits the trade, and consequently the public revenues, of India was at one time held by many. Numerous refutations have however been published in the last ten years, and I had hoped that the opinion had been now generally discarded: and that it was almost universally accepted that any benefit derived from a falling exchange is of a most transitory kind and leaves no trace of permanent or general good behind it. It would be out of place, however, to argue out that difficult question in this note; and, as will appear from the next paragraph, I do not think that it really affects the issue being discussed.

9. Whatever the effect of a *falling* exchange on trade and revenues, I believe it is generally accepted that neither trade nor revenues are in any way benefited or made more prosperous or greater by a stable rate of exchange on a low level as compared with a stable rate on a higher level. The Honourable Member in paragraph 21, draws a sharp distinction between the effects of a *low* rate of exchange and those of a *falling* exchange. And his argument in paragraph 21 seems to attribute the alleged beneficial effects on our revenues entirely to a *falling* exchange. But the question with which he is dealing is the difference in the burden of taxation of a named amount in periods when two distinct stable rates of exchange prevail, and it has nothing to do with any period in which the rate is falling from the higher to the lower rate. His conclusion therefore that the burden of taxation of a named amount is lighter with a stable exchange of 1*s*. 3*d*. than with a stable exchange of 1*s*. 4*d*. does not seem to me to follow from his premises. However, I may have misunderstood the Honourable Member's argument, and he may mean to assert that in addition to the beneficial effect on trade and revenues of a falling exchange, there is also a similar effect produced by stable low exchange as compared with a stable high exchange: that certainty is necessary to the conclusion drawn in paragraph 21. If so, I can only respectfully express my dissent from the premiss and the conclusion. I feel as great certainty as is possible in such matters that a stable low exchange has no advantage over a stable high exchange in the way of stimulating trade or lightening the burden of taxation.

10. The sum of this part of the matter is, that if the rate of exchange is permanently fixed at 1s. 3*d*. instead of 1*s*. 4*d*. the one certain effect will be that we shall have to spend annually about two crores of rupees more to meet our sterling payments, and that the number of rupees to be raised by taxation must therefore be permanently higher by that amount: whether there will be compensatory advantage which will make that additional taxation an addition in appearance only and not a real additional burden, is, at any rate, open to doubt.

11. The facts above brought out are that the adoption of the rate of 1*s*. 3*d*. instead of 1*s*. 4*d*. will involve a large permanent addition to our annual expenditure expressed in rupees; that the taxation must be larger by that number of rupees; that it is *primâ facie* probable that that addition will be a real addition to taxation; and that it is, to say the least, doubtful whether the compensation will occur which it is alleged will cause the increased taxation to be a nominal and not a real addition to the burden of taxation. These facts seem to me to render it highly desirable to adhere to the higher rate of 1*s*. 4*d*. unless there are other strong reasons for changing the rate.

Are there any such reasons? Omitting for the present the reasons connected with the special circumstances of next year, which I shall deal with in Part II of this note, the only general reason stated in the Honourable Member's minute in favour of the change is that, while there is an early prospect of exchange rising to 1*s*. 3*d*., it is likely to take a long time to rise to 1*s*. 4*d*., and that consequently by adopting the lower rate we shall attain stability of exchange and the establishment of a gold standard much earlier.

13. If it were certain that the establishment of the gold standard could be brought forward and the present period of transition in the currency policy could be shortened considerably, that is to say, by several years, by the proposed measure, I should cordially support it. But there is no such certainty. It is dangerous, and perhaps foolish, to prophesy in such a matter, but it is necessary to weigh probabilities in advising on a measure which affects the future. And to me the probabilities seem that the "ordinary* course of exchange" would raise the rate to 1*s*. 4*d*. about a year after it has raised it to 1*s*. 3*d*. As far as I can judge, the causes which have been operating for the last two years or so, and which have raised the rate in that period from 1*s*. 0½*d*. (in May 1894) to 1*s*. 2⅝*d*. will continue to operate, and will raise the rate gradually to 1*s*. 4*d*. I see no reason to anticipate that those causes will cease to operate or will operate more slowly after a rate of 1*s*. 3*d*. has been reached. If the interval between 1*s*. 3*d*. and 1*s*. 4*d*. is not likely to exceed one year or even two or three years, the reasons stated by the Honourable Member in the first part of paragraph 15 of his note should lead us to refrain from making the change to 1*s*. 3*d*.

14. My main reason, however, for deprecating the change so strongly as I do, is that I believe that its adoption will very probably have the effect of increasing a hundred-fold the chances against our ever being able to establish a gold standard at any rate whatever. This effect will be produced by a renewed outburst of want of public confidence in the ability or even the desire of the Government of India to carry its currency experiment to a successful issue. It has been frequently pointed out that public confidence is a very important element in the matter. To quote one such remark:-Sir D. Barbour in introducing the Bill of 1893 said, "If the public lose confidence in the success of our measures the difficulties of establishing and maintaining a gold standard will be enormously increased." There is, I think, no doubt that want of confidence in the Government has in the past seriously hampered the progress of the experiment. Doubts were generally felt as to the ability of

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* I use this expression in the sense defined by Honourable Member in paragraph 19, and also as excluding the effect of the Railway programme and of the anticipated famine on change: I believe that the net effect of those two will be to retard the rise which would have occurred if both were eliminated.

the Government to carry through its experiment: many asserted and many believed that this had been recognised, that the intention to persevere in the attempt had been abandoned and that the mints were about to be reopened. This led to a long continued speculative activity in exchange transactions which delayed the effect of the permanent and ordinary causes which have since asserted their power. Confidence has now been restored in the intention of the Government of India to work out the experiment till a gold standard is established, and there is a fair degree of confidence that its efforts will in time be successful.

15. I believe that this slowly gained confidence would be seriously shaken if not entirely shattered by a sudden announcement of the alteration of the rate of 1*s*. 4*d*. in the Notifications Nos. 2662 and 2663, dated the 26th June 1893, to 1*s*. 3*d*. No amount of assurance or protestations will induce the public to believe that the change is made with the object of securing the immediate or earlier establishment of a gold standard: they will feel convinced that the reason is that the Government has given up all hopes of being able to establish a 16-penny rupee, that it thinks it may make another attempt on the lower basis of 15 pence, but will be prepared if that attempt also fails to make another retreat down to 14 pence, and ultimately to abandon the whole policy and reopen the mints. Being persuaded of this, the merchants and speculators will take measures to protect themselves by making their arrnagements on the supposition of a fall in exchange in the future, which they believe the Government to foresee: and those measures will have very powerful effect towards causing such a fall. The destruction of confidence will thus prevent us from ever reaching, or at any rate from maintaining for any time, a rate of 1*s*. 3*d*.; and in my opinion we are likely to reach a rate of 1*s*. 4*d*. by leaving things as they are at an earlier date than we shall reach 1*s*. 3*d*. if the proposed change is made.

16. It will be said that there would be no solid ground or basis for the beliefs which I say the public will entertain in the supposed circumstances. I think, nevertheless, that the experience of the two years or two years and a half following the closing of the mints shows that that fact would not prevent the beliefs arising or action being taken in accordance therewith. The currency experiment now proceeding is one which requires delicate treatment, and it is necessary to avoid any step which may give rise to misunderstanding or may possibly be made a ground for attributing to the Government hesitation, irresolution or doubt as to success of the experiment.

II.—Effects of the Railway programme and of the anticipated famine.

17. The Honourable Member makes his proposal at the present time* because he anticipates that the large reduction of the Secretary of State's drawings next year, necessitated by the programme of Railway construction which has been adopted, and the demand for remittances from England to India of capital for investment in Indian Railways outside that programme, will have a sudden and considerable effect in the way of raising the rate of exchange.

18. Now if next year were likely to be normal in other respects than the large railway expenditure, if there were no fear of impending famine, I

* See the footnote of paragraph 8 of this note.

J. F. F.,—23-10-96.

venture respectfully to think that the effect of a reduction of 2½ or 3 million pounds in the year's drawings—spread over twelve months and made after ample notice—has been exaggerated in the Honourable Member's note of the 9th October 1896 on the financial aspects of the Railway programme and in his note of the 19th October. Mr. O'Conor, whom I consulted on the subject, agreed with me in thinking that the reduction, spread over twelve months and duly announced in ordinary course beforehand, would not have a very great effect on trade or exchange in a normal year.

19. Trade conditions however are not now normal, and they will be still less normal next year. There will be a widespread failure of crops, and a severe famine seems only too probable. The result will be a heavy reduction in the net exports of India, and consequently in the trade demand for Council Bills. This will necessitate a reduction of the Secretary of State's drawings probably by more than 2½ or 3 millions. The expected famine will therefore more than counterbalance any effects which the Railway programme may have in the direction of raising exchange.

20. Mr. O'Conor left Simla on Tuesday, but just before he left he wrote some hurried notes for me on this subject. I give the following extract:—

"No wheat will be exported next year, and there will also be little, if any, export of linseed and rapeseed. The cotton crop is very deficient, the prospects of the indigo crop in Behar and the North-West for next year are very bad, the jute crop is not good, and the rice crop in Bengal is poor. Prices for rice and such other food-grains as are available will be raised to a level which will prevent export. I estimate that we shall probably see in next year's exports a diminution of the value of the articles undermentioned to at least the extent specified:

	Rx. (millions)
Rice	4·5
Wheat	4·
Other goods	0·2
Indigo	2·
Cotton	6·
Jute	1·
Linseed	3·
Rapeseed	1·
Tilseed	1·

"The aggregate is between 22 and 23 millions of Rx. There may be some sets-off in other directions—increased exports of hides and skins, also of gold, and so on. But on the whole, I am inclined to think that, so wide is the area of failure, that exports will be from 15 to 20 millions of Rx. smaller next year than in 1895-96. The decline is shewing itself now, and it will be accentuated as the months follow each other. I do not think that the imports will be correspondingly diminished, though no doubt they also will decline for many of the imports, and those the most important, are indispensable for the conduct of trade and industry (machinery and millwork, metals, railway material among other things) or such things as cotton goods in which there is an irreducible minimum. As against the diminution of the ordinary import trade we must set the extraordinary importations of food stuffs which will be required. These will probably set off a large part of the diminution in the ordinary import trade, and I think it probable that while the volume of exports will be seriously contracted next year, the volume of imports will not be correspondingly diminished."

And Mr. O' Conor told me that, in his opinion, reduction of 2½ or 3 millions in the Secretary of State's drawings in 1897-98 will hardly be sufficient to prevent a fall in exchange.

21. If the above anticipations are well founded, it appears that the effects of the impending famine will more than counterbalance the effects of the Railway programme on exchange. I much fear that what will occur in 1897-98 will be a fall in the rate of exchange: there is at any rate no reasonable gound to anticipate that there will be a rapid rise in that year.

22. Exchange is now trending steadily upwards, and will probably, in the remainder of the current year, continue to rise in the ordinary course of events. But I do not think there is much fear or hope of its rising much above 1*s.* 3*d.* this cold weather. The reduction of the drawings next year can of course have no effect before March next, as it will not be announced till that month, and the reduction of exports caused by the failure of crops will tend to make the rise this cold weather less than it would otherwise have been.

23. My conclusion therefore on the special circumstances connected with the Railway programme and the impending famine is that there is no reason to anticipate that there will be any rapid and considerable rise in the rate of exchange such as the Honourable Member fears and desires to guard against.

24. There remains another consideration which is discussed in paragraph 23 of the Honourable Member's note. It is that the famine combined with the stringency of the money market, may create a demand for a larger number of rupees for circulation in India than at present exist, and that, under the present condition, there is no means of meeting this demand. I admit the gravity of this consideration : it arises from the present transition stage of the currency policy : there is now no automatic means by which the currency can expand in response to the demands of the country and trade. For the reasons I have stated in paragraph 15 of this note, I do not believe that the reduction from 1*s.* 4*d.* to 1*s.* 3*d.* of the rate at which gold will be received would provide the missing safety-valve : the effect of the announcement of the change would be to prevent exchange reaching or at any rate remaining at even the lower rate.

25. The measure which I would hold in reserve to meet the contingency contemplated *if and when it arises,* would be the purchase of silver by the Government for coinage into rupees. The silver would be obtainable very easily and quickly, and there is no necessity to make or at any rate to announce any preparations beforehand : it is merely necessary to decide that that would be the measure to be taken.

26. I hope that the contingency may not arrive, as I should be very sorry to see the coinage of rupees recommenced before the rate of 1*s.* 4*d.* contemplated for that purpose is reached. But if the measure has to be adopted, it will be adopted for reasons patent to the whole world,—the strain of a famine and the stringency of the money market and the temporary scarcity of the circulating medium in the country and especially in the Presidency Towns—and I hope that the adoption of it for those purely temporary and well known reasons would not lead to any misunderstanding or deliberate misinterpretation of the intentions or expectations of the Government of India in regard to its currency policy. (I may mention that when the draft of the Bill closing the mints was prepared in December 1892, Sir A. Miller proposed to insert sections regarding the coinage of rupees on behalf of the Government, as he thought it might be desirable to show on the face of the Bill "that we contemplated continuing to coin as much as might be needed." These provisions were omitted at Sir D. Barbour's request, on the ground that they were superfluous, and that without them the Government would have full power to purchase and coin into rupees as much silver as might be desired.)

27. I must say before I conclude that I recognise and share to the full the Honourable Member's anxiety as to the difficulty of financing the Government of India through next year : it arises from the magnitude of the Railway programme and the demands which the famine will bring upon us. But the permanent and overwhelming importance of carrying the currency policy to a successful issue leads me to urge that we ought not to be induced by that most just

anxiety to propose any modification of the currency scheme except under the most pressing and abnormal conditions actually present or immediately impending beyond the possibility of doubt. Even the measure I have suggested in paragraph 25 as the one to be held in reserve for adoption when necessary ought not to be adopted, much less announced, one moment before the necessity for some measure to meet the contingency feared is abundantly apparent.

I may mention one consideration which may be thought germane to the matter, though I do not think that the Government of India ought to be deterred by it from proposing any measure which it after consideration considers both desirable and of importance. It is that there is almost no prospect that the Secretary of State would accord his sanction to a proposal to lower the rate to 1*s.* 3*d.* The object of the proposal and its effect, if successful, would be to attract gold to India. This is not an object which the Secretary of State would be allowed by his colleagues in the Cabinet and his London advisers to advance at a time when the fears of the London financial world already are that gold may be withdrawn from London to a most inconvenient extent.

LV.

DESPATCH FROM THE SECRETARY OF STATE FOR INDIA, TO THE GOVERNMENT OF INDIA, No. 129 (FINANCIAL), DATED 5TH AUGUST, 1897.

Your Excellency is aware that special envoys from the United States and the Ambassador of France have had interviews with members of Her Majesty's Government in order to discuss the subject of currency reform, in which the Governments of both those countries are at present much interested.

2. The result of those discussions is that Her Majesty's Government have been asked whether, on certain conditions, the question of re-opening the Indian mints, which have been closed since 1893, would be taken into consideration.

3. Her Majesty's Government understand that the Governments of France and of the United States desire to open their mints to the free coinage of silver, as well as of gold, such silver to be made legal tender to an unlimited amount at a ratio of 15½ of silver to 1 of gold, provided that they are satisfied they would receive such assistance from other Powers in increasing the demand for silver as would, in their opinion, justify them in such a policy. They propose to summon an International Conference to deal with the matter, if they are led to believe, by the preliminary inquiry which they are now undertaking, that such a Conference would arrive at any satisfactory result; and they ask whether, if their mints were opened as suggested, your Excellency's Government would undertake to re-open concurrently the Indian mints to the free coinage of silver, and to repeal the order which made the sovereign legal tender in India. It would, in this case, be clearly understood that no action shall be taken by you until you are satisfied that the intentions and undertakings of the two Governments will undoubtedly be carried into effect.

4. Her Majesty's Government have replied that they will consult your Excellency's Government upon these proposals, and I invite you accordingly to give them your most careful consideration.

5. It is argued that, on the one hand, very great advantages would be gained for India under an arrangement which could not fail to have the effect of raising materially the gold value of silver, and consequently of the rupee, and which, if it were maintained, would give a good prospect of a more stable ratio, when once the first disturbance was over, than has been known for many years. In that case heavy loss which is now sustained both by your Government and by all individuals who depend upon a silver currency for the payment of liabilities contracted in gold, would, in all likelihood, disappear; and holders of rupee values would benefit greatly the increased command of sterling by values which such a change would necessarily give them.

6. The present system, however great may be the benefits which it has conferred, may appear to be one of artificial and arbitrary restriction, which is thought by some to have an injurious effect on the course of trade, and the fact of its removal would have the advantage of leaving the expansion and contraction of the currency to the natural force of the market. I believe, moreover, that your Excellency will agree with me in thinking that the maintenance of the exchange value of the rupee at a point considerably above the intrinsic value of the silver which it contains is not without inconvenience and that a policy which without lowering exchange would restore the rupee to a value practically unmodified by mint regulations, has much to recommend it.

7. On the other hand, there are certain objections which will readily occur to your Excellency, such as the disturbance and dislocation of trade which might perhaps follow a great alteration in the rate of exchange, and the possibility, however remote, that the value of the rupee, as measured in commodities in India, would be so far enchanced as to cause discontent by increasing seriously the amount payable as taxation.

8. A more serious question, in my opinion, is whether the combination of only two Governments, even though the countries which they represent are as important financially as France and the United States, is sufficient to give such a reasonable promise of stability and permanence to an arrangement of this nature as would justify India in facing the undeniable risks and inconveniences attaching to such a change in her system of currency. No doubt, however, the conclusions to be formed on this aspect of the question must in part depend on the terms of the arrangement made between the Governments concerned.

9. In conclusion, I will remind your Excellency that in 1892 the policy of closing the mints was only recommended by your Excellency's predecessor in Council on the ground that an international arrangement, similar to that which is now contemplated, was not then obtainable. This is clearly stated in the Letters of Lord Lansdowne's Government, dated 23rd March and 21st June 1892, and I shall be glad to learn whether your Excellency sees any reason to modify the views therein expressed, and, if so, on what grounds.

10. The question involves issues of such magnitude that I cannot ask your Excellency to reply to this Despatch without taking such time as you may require for full deliberation and confidential discussion. As, however, it is important that Her Majesty's Government should, as soon as possible, be in a position to give an answer to the French and American representatives, I trust that you will at once undertake the consideration of the matter, and that you will let me know your views without any unnecessary delay.

LVI.

Despatch to Her Majesty's Secretary of State for India, No. 261, dated the 16th September 1897.

We have the honour to acknowledge receipt of Your Lordship's despatch No. 129 of August 5, 1897, asking for our opinion whether the Indian mints may be re-opened to silver as part of a contemplated arrangement under which France and the United States of America will open their mints to silver as well as gold.

2. The present currency systems of the three countries may be thus described. France and the United States both have a gold standard; the mints are open to gold and closed to silver; but gold and silver coins are alike legal tender to an unlimited amount in both countries, at a ratio of $15\frac{1}{2}$ to 1 in the former and of 16 to 1 in the latter. The currency system of India is in a transition state: the Government of India in 1893 decided to establish a gold standard; and the first step towards that object was the closing of the mints to silver by Act VIII of 1893. The silver rupee is still the sole legal tender coin, though the Government has by executive orders undertaken to receive gold and sovereigns under certain restrictions set forth in Notifications No. 2662 and No. 2663 of June 26, 1893, the rate of exchange adopted being 16*d*. the rupee or Rs. 15 = £1. The measures to be taken when the transition period has passed have not been laid down, but it is probable that the Indian mints will be opened to gold, and gold coins will be made legal tender to an unlimited amount; silver rupees would also continue to be legal tender to an unlimited amount, and the ratio between the rupee and the gold coins as legal tender would at the same time be finally settled. The system towards which India is moving is thus a gold standard of the same kind as that which now exists in France and the United States, but with a different ratio for legal tender; but for the present the mints are closed both to gold and silver. The transition period has lasted for more than four years, but there is ground for hope that it is now drawing to a close.

3. The changes which are involved in the arrangements proposed to Her Majesty's Government are the following. France and the United States are to open their mints to the free coinage of silver, continuing the free coinage of gold and the unlimited legal tender of coins of both metals, the ratio remaining unchanged in France and being altered to the French ratio of $15\frac{1}{2}$ to 1 in the United States. India is to open her mints to silver, to keep them closed to gold, and to undertake not to make gold legal tender. France and the United States would thus be bimetallic; India would be monometallic (silver); while most of the other important countries of the world would be monometallic (gold).

4. The object which the proposers have in view is the establishment of a stable relation between the values of gold and of silver. This would include the establishment of a stable exchange between the rupee and sterling currency, which was the object of the Government of India in the proposals made in our Financial despatch No. 160 of June 21, 1892, which proposals ultimately resulted in the adoption, in view to the attainment of that object,

of the policy of a gold standard, and in the closing of the mints to the free coinage of silver.

If then it were certain that the suggested measures would result in the establishment of a stable ratio, the Government of India might well consider whether their adoption would not be preferable to the policy to which they committed themselves in 1893 in the hope of attaining the same result by isolated action on the part of India alone. The principal questions therefore for us to consider are whether the measures are more likely to succeed than the policy of 1893, and what consequences to India may be apprehended if the measures should fail of success after being brought into operation. From this point of view we propose to discuss the effect on trade and industry and on our own revenues, of the changes when made, and of the failure of the arrangement if it should fail, the chances of success, and the risks of failure.

5. The first result of the suggested measures, if they even temporarily succeed in their object, would be an intense disturbance of Indian trade and industry by the sudden rise in the rate of exchange which, if the ratio adopted were 15½ to 1, would be a rise from about 16*d*. to about 23*d*. the rupee. Such a rise is enough to kill our export trade, for the time at least. If the public were not convinced that the arrangement would have the effect intended, or believed that it would not be permanent, the paralysis of trade and industry would be prolonged and accompanied by acute individual suffering; none of the advantages expected would be attained; and the country would pass through a critical period which would retard its progress for years. How long the crisis would last before normal or stable conditions were restored it is not possible to conjecture. It would be long even if the mercantile and banking community saw that silver was being steadily maintained at the prescribed ratio, while any indication of unsteadiness would greatly prolong the period by giving foundation for doubt. If the doubt should happen to be justified by the results, the position would be disastrous alike to the State, to individuals, and to trade generally. The exchange value of the rupee having risen suddenly, without any intermediate steps, from 16*d*. to some higher figure, it would fall quite as suddenly to a point far lower than its present level, probably to 9*d*., or even lower. Such a fall would, apart from other disastrous results, necessitate the imposition of additional taxation to the extent of many crores.

6. We may here remind Your Lordship that such an agreement as is proposed is an infinitely more serious question for India than for either of the other two countries; for it seems clear that practically the whole risk of disaster from failure would fall on India alone. What would happen in each of the three countries if the agreement broke down and came to an end? France possesses a large stock of gold and the United States are at present in much the same situation as France though the stock of that metal is not so large. It may be admitted that if no precautions were taken these gold reserves might disappear under the operation of the agreement, and in that case if the experiment ultimately failed, the two countries concerned would suffer great loss. But it is inconceivable that precautions would not be taken, at all events so soon as the danger of the depletion of the gold reserves manifested itself, and therefore it is probable that no particular change would take place in the monetary system of France or the United States, the only effect of the agreement being a coinage of silver which would terminate with the termination of the agreement. Thus the whole cost of the failure, if the experiment should fail, would be borne by India. Here the rupee would rise with great

swiftness, it would keep steady for a time, and then, when the collapse came, it would fall headlong. What course could we then adopt to prevent the fluctuation of the exchange value of our standard of value with the fluctuations in the price of silver? We do not think that any remedy would be open to us, for if the Indian mints were re-opened to silver now, it would, in our opinion, be practically impossible for the Government of India ever to close them again; and even if they were closed it would only be after very large additions had been made to the amount of silver in circulation.

7. There is another important consideration in which India is affected in a manner different from France and the United States. The effect of the scheme will probably be an increase in gold prices (that is, in the prices current in France and in the United States) and a fall in silver prices (that is in the prices current in India). This is not the place in which to discuss the economic effects of a rise or a fall in prices, a matter in respect of which there may be difference of opinion. But we presume that France and the United States contemplate with equanimity the possible effects of the change of prices upon their trade and production generally, while it is manifestly impossible for us, affected as we are in the opposite direction, to take the same view.

8. Moreover, it seems to us somewhat unfair to expect that India should, after its struggles and difficulties of the last decade, consider itself on the same plane in the discussion of these projects, as France and the United States. India has since 1893 passed through a period of serious tension and embarrassment alike to trade and to the Government. We are satisfied that, great as have been the troubles which have attended this period of transition, the attainment in the end of the paramount object of stability in exchange is worth more than all the sacrifices made. We believe that our difficulties are now nearly over and that we shall in the near future succeed in establishing a stable exchange at 16*d.* the rupee by continuing the policy initiated in 1893.

9. The United States are possibly, in part at least, inspired, in making these proposals, by the idea that they may have before them some of the difficulties and dangers which we have experienced. We need not say that if our way was clear before us, the consideration that another and a friendly nation would derive benefit from the course adopted by us, would present itself to our minds as a good reason for the adoption of a course of action which would have that result. But the case is quite different when, on the eve of emerging with success, by our own unaided efforts, from the monetary disturbances of the last twenty years, we are asked, in view of the benefit to other nations, to throw away the advantages we have gained and plunge into a new period of struggle and change. Only the most absolute certainty of early and permanent success would warrant our acceptance of such a position. We cannot help seeing that if the policy of 1893 is now abandoned, and if the triple union now proposed as a substitute should fail in its operation or should terminate, and in its failure subject Indian trade to the violent shocks we have described, the Government of India could not, as a responsible Government, call upon the commercial public to face another prolonged period of doubt, suspense, agitation, and difficulties. For it must be clearly and fully recognised that if India joins in the proposed measures, we shall be left dependent, as the sole means of attaining stability in exchange, on the success of those measures, and that if they should fail, India must be content to remain permanently under the silver standard with all its admitted disadvantages.

10. If then there is any reasonable doubt of the success of the suggested measures, we are of opinion that we ought to refuse to co-operate and should maintain our freedom to watch the course of events and take such action from time to time as these may render expedient. A possibility or even a probability that the efforts of France and the United States might meet with success would not be enough to justify us in parting with our freedom or doing anything to further an experiment which, if it fails, will entail consequences to the trade and finances of India which must be described, without any exaggeration, as disastrous.

11. We have given very careful consideration to the question whether France and the United States are likely, with the help of India, to be able to maintain the relative value of gold and silver permanently at the ratio they intend to adopt, and have come to the conclusion that while we admit a possibility of the arrangements proposed resulting in the permanent maintenance of the value of gold and silver at the ratio of 15½ to 1, the probability is that they will fail to secure that result; and that it is quite impossible to hold that there is anything approaching a practical certainty of their doing so.

12. One reason for this conclusion is that the arrangement would rest on too narrow a basis. A union consisting of two countries, with a third lending assistance, is a very different thing from the general international union of all or most of the important countries of the world, which was advocated by the Government of India in the despatches of March and June 1892 and of February and September 1886.

13. To afford a hope that a monetary union will succeed in establishing stability in the relative value of gold and silver, it is essential that the nations adhering to it should be of such number and importance that the metallic currency of the whole body shall be of sufficient extent to allow of the exercise of adequate influence on the value of the two metals. We doubt whether any two or even three nations in the world, unless indeed one of them was Great Britain, could comply with this condition, and we have no hesitation in saying that France and the United States and India certainly could not. The intended ratio assigns to coined silver a much higher value than the present market value of silver; and the market value could only be raised by transferring the demand for coinage from gold to silver. But France, the United States, and India all possess a very large stock of silver coin, and it is doubtful whether there is much room in them for a large increase in the silver coinage except by the displacement in France and the United States of the existing gold coins. It is quite possible that the whole of the gold coinage of both France and the United States might disappear and be replaced by silver coins before the market value of silver was raised to the intended ratio with gold. Whether the Governments of those countries will allow a total displacement of their gold by silver coins and the possible export from the country of the entire stock of gold is, as we explain in paragraphs 6 and 17 of this despatch, open to more than doubt: and in so far as either enforces measures to prevent gold from being exported, the power of the union, and possibly also its desire, to effect its object will be diminished.

14. A further doubt occurs to us in the possibility that either France or the United States may, for reasons which will suggest themselves to Your Lordship, be reduced for a time to a paper currency. In that case the agreement would cease to operate for an indefinite period under the stress of circumstances. This possibility, though of no importance in the case of a union

comprising all the important countries of the world, cannot be disregarded when two or three countries only form the union.

15. Another important source of doubt lies in the consideration that a three-sided agreement is open to much greater risk of termination by the action of one or two of the parties than a many-sided agreement such as the Government of India advocated before 1893. In the latter all the commercial countries would be in the union and all would be in an equal position; there would be no ground for supposing that the operation of the agreement benefited one country at the expense of another. There would therefore be no substantial inducement for withdrawal from the régime adopted by common consent; the union might for practical purposes continue to subsist and to produce its effect even after the dissenting country had withdrawn. On the other hand, in a three-sided agreement such as is now proposed, France, for instance, might any day find some reason for thinking that Germany was obtaning some advantage at her expense in consequence of the great difference in the standard of value, or in the same way the United States might suppose that Canada was obtaning an advantage; and thereupon discussions might ensue as to the expediency of terminating the agreement which would have only a less serious effect than its actual termination.

16. We cannot overlook the fact that the proposals now before us come from two great powers whose policy is under existing circumstances peculiarly liable to be affected by considerations of this kind. The frequent changes of Ministry in France cannot but result in a feeling of uncertainty; while the recent history of the Presidential Election in the United States shows how readily fiscal arrangements may be made part of a party programme and their continuance may depend on the chances of a party triumph.

17. Another reason for anticipating that the proposed agreement is not likely to succeed will be found in the considerations mentioned in paragraph 6 regarding the improbability of France and the United States allowing their gold reserve to disappear. We attach great importance to these considerations because we are convinced that they vitally affect the prospects of any agreement being successfully carried out. With the precautions to which we have referred the experiment might be continued, for the risk to the two nations would be very small. But without these precautions or if they proved to be inadequate for their purpose, *i.e.*, the retention of a sufficient stock of gold, we believe the inducement to abandon the experiment would be very strong, and if even one country adopted that course it would be impossible to prevent the whole agreement breaking down.

18. For these reasons alone, without taking into consideration the objections based on the particular ratio proposed, which we shall separately discuss, we have no hesitation in recommending Your Lordship to refuse to give the undertaking desired by the Governments of France and the United States. We are quite clearly of opinion that the interests of India demand that her mints shall not be opened as part of an arrangement to which two or three countries only are parties, and which does not include Great Britain.

19. We note that the proposals of the Governments of France and the United States are subject to the proviso that they are satisfied that they will receive assistance from other Powers in increasing the demand for silver. We believe that a limited increase of the quantity of silver used as currency will exercise a very trifling influence, if any, in raising the gold price of silver, and that the only assistance from other Powers which can be of any real value

would be the addition of other countries to the bimetallic union of France and the United States. If, however, assurances of really substantial co-operation should be secured from other countries, we shall be glad to learn the exact nature of the assurances, and we shall then consider whether the promised co-operation changes the conditions of the problem or adds materially to the chances of success.

20. We believe, however, that whatever inducements are held out to us by other nations, our best policy in monetary matters is to link our system with that of Great Britain. Our commercial connexions with that country are far more important than those with all the rest of the world put together, and more than a sixth part of our expenditure is incurred in that country, and measured in its currency. The advantages, which in this respect we gain by following the lead of Great Britain, are not obtained, or not fully obtained, if we become members of a monetary union in which Great Britain takes no part. And, indeed, as we have already explained, we have little hope of an efficient union being formed unless Great Britain is a member. We think it a reasonable position for us to take with regard to the present proposals by France and the United States, that we should say that the Government of India strove long and earnestly to further the formation of an International Union: that when they saw that the opposition of England rendered impossible the attainment of that object within any measurable time, they temporarily abandoned their efforts in that direction and decided, as the least prejudicial of the courses open to them, to throw in their lot with Great Britain and to adopt the gold standard: that, as it appears improbable that an effective union will be formed without the adhesion of Great Britain, and as the measures adopted to introduce a gold standard in India are now approaching final success, they consider that it will be wisest to adhere to the course adopted in 1893 until Great Britain is prepared to join in international bimetallism; and that they therefore wish to adhere to the same monetary standard as Great Britain, with which nation they are most closely linked both in respect of their commercial relations and in all other respects, and to refrain from becoming a party to arrangements with other nations in which Great Britain sees ample reason for refusing to join.

21. So far, the arguments we have offered, in discussing the chances of success or failure of the arrangement, have been independent of consideration of the precise ratio proposed by France and United States. We have objected to the arrangement on grounds which apply to it whatever be the ratio adopted, but we must add that our objections are greatly strengthened by the fact that so high a ratio is proposed as $15\frac{1}{2}$ to 1. It seems to us that the difficulty of making the arrangement effective will be immensely increased by the adoption of a ratio differing so widely from the present market ratio. Indeed, even if it could be maintained successfully, we should object to that ratio in the interests of India, and we recommend that Your Lordship should, on behalf of India, decline to participate in or do anything to encourage the formation of a union based on that ratio.

22. We have said in paragraph 5 that the first result of the proposed arrangement would be an immediate disturbance of trade and industry by the advance of the exchange value of the rupee, which will be very intense if the rise is from between 15 and 16 pence to about 23 pence. There is no doubt that the effect would be to throw some branches of the export trade of India and the industries connected therewith (the planting industries for example

in which a large amount of European capital has been embarked) into the most depressed condition for some time at least. The period of depression might be long or comparatively short, though there are authorities who are inclined to attribute a permanently disastrous effect to such a large and sudden rise in exchange and to apprehend that Indian commerce might be utterly shaken by the change.

In any case, we are of opinion that the true interests of India demand that any measures for attaining stability in the rate of exchange between gold and silver should be based upon a rate not greatly differing from 16*d.* the rupee, and that any measure which would raise the rupee materially higher than that level involves great dangers for which we see no adequate compensations. Your Lordship will observe that we attach no special importance to the advantages to be derived from the proposed considerable rise in exchange, mentioned in paragraph 5 of your despatch, and consider them to be far outweighed by the resulting evils.

23. Pressed as we have been for many years by the difficulty of finding the continually increasing number of rupees requisite to discharge our sterling liabilities, we are apt to look too exclusively at the effect which a rise of exchange would have in diminishing the burden of that demand upon us. We do not deny that a large surplus of revenue will arise from so great an improvement in exchange; but it is not to be forgotten that there are many respects in which our revenue account must directly suffer by a rise in the exchange value of the rupee, and that these considerations ought to greatly influence our estimate of the benefit to our revenue account which is almost the sole advantage which, as a Government, we can expect to obtain from the proposed measures.

The anticipated fall in prices is one that will adversely affect both our revenues and the general condition of the agricultural classes in the country. To take the case of our Land Revenue, a very large portion of the country has passed under Land Revenue Settlement during the last ten or fifteen years. One of the factors in fixing the demand of the Government for revenue is the price of agricultural produce; if that price falls away, the heavier the demand becomes, and if it falls away materially the relation between the price that the ryot can obtain for his produce and the assessment he has to meet may be so seriously altered as to affect the agricultural prosperity of large tracts of country. The work of re-settlement is a tedious one, it cannot be effected in all probability for some years, and when it is effected it will *pro tanto* dissipate much of the advantage which the rise of exchange would bring to the Government account.

So, also, as regards our Railway Revenues, which are now so important a portion of our income. They are in part directly dependent upon the activity of the export trade, and a blow struck at that trade will be felt by us immediately and directly through our railway account.

24. For these reasons therefore, in addition to those set forth in the earlier portion of this despatch, we recommend that the reply to the request of the Governments of France and the United States should be in the negative. We presume that a union based upon a ratio low enough to suit our interests would be unacceptable to France and the United States.

25. With reference to paragraph 6 of Your Lordship's despatch, we invite attention to the description of the present currency system of India

given in paragraph 2 above. There appears to be some misapprehension in the comparison drawn between the arrangement proposed by the United States and France and the "present system" in India. The present system is of course open to the objection that it is one of artificial restriction, but it is essential to bear in mind that it is not a permanent system or indeed a system at all. We are in a transition period, moving from one system to another, and the present artificial restriction is merely a temporary expedient which has for its sole object the acceleration of the movement and which will cease to exist with the completion of the movement. Thereafter the expansion and contraction of the currency will be left to the natural forces of the market, that is, it will be regulated automatically by the inflow and outflow of gold.

26. It is true that the system will be open to the other objection stated in paragraph 6 of the despatch, that the rupee will continue to remain at a value above its metallic value, but—as was pointed out by Lord Herschell's Committee—this is an objection which has not made itself seriously felt in the other countries, including France and the United States, in which an analogous system has been in operation for many years. It is not likely that the objection will make itself seriously felt in India when the gold standard has been effectively introduced.

27. The question really is not one of comparison, as put by Your Lordship, between the present temporary expedient in India and the arrangement proposed, but between a gold standard and the proposed arrangement, which involves the abandonment of the policy of a gold standard, adopted in 1893, in favour of reversion to the policy of a silver standard.

28. In paragraph 9 of the despatch, Your Lordship reminds us that "in 1892 the policy of closing the mints was only recommended" by Lord Lansdowne's Government "on the ground that an international arrangement, similar to that which is now contemplated, was not then obtainable," and we are asked to say whether we see any reason to modify the views expressed in that sense in the despatches No. 68 of March 23 and No. 160 of June 21, 1892.

In reply we have first to point out that the international arrangement which Lord Lansdowne's Government contemplated is very far from being similar to that which is now proposed. The proposal now under consideration is for a union of two countries only, with some assistance from a third: the international arrangement contemplated in 1892 was a general bimetallic union of all important nations, or, to use the words of the despatch No. 277 of September 4, 1886, which is referred to in paragraph 2 of the despatch of June 21, 1892, as expressing the views held by Lord Lansdowne's Government, "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." We have already stated our opinion that the agreement now proposed does not fulfil the last named essential condition.

Secondly, circumstances have essentially altered since 1892. Despairing of securing the adoption of any of the measures which they had persistently urged, the Government of India decided to attempt the establishment of a gold standard and, as the first step, closed the mints to the coinage of silver tendered by the public. If the proposals now made had been made in 1892 or at any time before June 1893, it is conceivable that the Government of