India of that time would have welcomed them as containing a possibility of securing the objects they desired, and would, in order to secure their adoption, have agreed to postpone the closing of the mints and to keep them open for a period sufficient to allow a full trial to the measures of France and the United States, say for five years. But our position is now very different. The experience of the last three or four years has cleared up many doubts which were present to our predecessors' minds in 1893, and it has taught us that the course we actually adopted in 1893 really had in it better chances of success than the alternative of a partial international agreement. To agree not to close mints, still open, for a definite time, and to agree to reopen closed mints, are two very different things. The former course would have been justifiable if the measures proposed were such as to afford a reasonable expectation of securing the main object of the Government of India, namely, stability in the rate of exchange. The latter is entirely unjustifiable, unless the measure afford a practical certainty of securing that object.

29. The conditions under which we have had to reply to Your Lordship's despatch preclude our consulting the commercial and banking communities in this country, although the subject is one in which they are, as we have explained, most closely interested. It was only after prolonged public discussion, and after a formal examination by a Committee of experts, that the policy of 1893 was adopted; and if we thought it our duty to advocate a change in that policy instead of to set out the strong objections which we see to its abandonment, we would, nevertheless, strongly deprecate any steps of the kind being taken without the fullest preliminary consideration on the part of the banking and commercial bodies in this country.

30. To sum up, our reply to Your Lordship's reference is a strong recommendation that you should decline to give the undertaking desired by France and the United States. Our unanimous and decided opinion is that, it would be most unwise to reopen the mints as part of the proposed arrangements, specially at a time when we are to all appearance approaching the attainment of stability in exchange by the operation of our own isolated and independent action.

LVII.

NOTIFICATION BY THE GOVERNMENT OF INDIA, FINANCE AND COMMERCE DEPARTMENT, No. 4071, DATED 11TH SEPTEMBER 1897.

In continuation of the Notifications No. 2662, No. 2663, and No. 2664, dated June 26th, 1893, the Governor General in Council hereby notifies for public information that, from and after the date of this Notification, sovereigns and half-sovereigns of current weight coined at any authorised Royal Mint in England or Australia will be received at the Reserve Treasuries at Calcutta, Madras and Bombay, and rupees will be issued in exchange therefor, the sovereign and half-sovereign being taken as the equivalent of fifteen rupees and of seven rupees eight annas respectively.

LVIII.

Despatch to Secretary of State, No. 70, dated the 3rd March 1898.

During the period which has elapsed since we wrote our despatch of September 16, 1897, No. 261, our attention has been drawn by circumstances to the pressing necessity of taking active measures to secure the stability of exchange which was the main object of the policy adopted in June 1893.

2. Our experience since 1893 has put beyond doubt one of the main principles upon which the legislation of that year was based,—a principle which was challenged at the time,—namely, that a contraction in the volume of our silver currency, with reference to the demands of trade, has the direct effect of raising its exchangeable value in relation to gold. Before 1893, while the mints were yet open, the value of the rupee as measured in gold continually declined with the decline in the value of silver; but since 1893, although the value of silver as a metal has continued, speaking generally, to decrease, the decrease in the value of the rupee has been arrested. The main difference in the conditions of the two periods was that before 1893 the amount of coin in circulation was allowed to increase automatically so as to be sufficient to meet the demands of trade at its reduced value, while since 1893, this automatic increase being stopped, the value of the rupee has been determined rather by the amount of coinage in circulation than by its intrinsic worth. We are justified in coming to the conclusion that if the measures taken in 1893 had been taken at an earlier date, and the increase which took place in the amount of coin in circulation for some years before 1893 had been prevented, the rupee would never have fallen so low in value as sixteen pence. It would follow from this that if we could now restore the circulation to the condition in which it was a few years before 1893 and could in some way reverse the increase of circulation which has intermediately taken place, we should effect the object of raising the value to at least sixteen pence.

3. The scheme of 1893 did actually contemplate, as we shall presently show, this reversal of the increase of circulation effected during the years immediately preceding, but so far as it has hitherto been carried into effect, it has merely stopped further increase. The average annual addition to the currency when the mints were open was about seven crores, of which, however, a part only, perhaps half, was a permanent addition, an amount equivalent to the remainder being removed from the circulation principally for the purpose of conversion into silver ornaments. It was hoped that the stoppage of an annual addition of this magnitude to the rupee currency and the gradual contraction of the currency which always occurs under the operation of ordinary causes, such as the withdrawal of coins reduced below the current weight by wear and tear and the loss or disappearance from circulation of coins, would, in the presence of the increasing demands of a continually expanding trade, suffice within a limited time to remove the effect of such increase of coinage as had taken place within a few years immediately preceding 1893, and thus restore the exchange value of the rupee to sixteen pence.

4. It was supposed at first that the process would not be unduly prolonged; but experience soon indicated that the amount of coin to be withdrawn before a rate of sixteen pence could be made operative was very large indeed. The suspension of the Secretary of State's drawings in 1893-94 and the consequent withdrawal of about 10 or 11 crores from the circulation proved insufficient even in the busy season to maintain the rupee at an exchange rate of 15½*d*. It soon became evident also that new influences of an adverse nature had been called into play, and that the process of raising the rupee to the desired exchange value might be prolonged, and might be accompanied by fluctuations which, though not nearly approaching those of the past, were yet sufficiently large to cause great inconvenience both to the public in carrying out the operations of trade and to us in the management of the Government finances. Immediately after the closure of the mints, there was a considerable importation of rupees into India from other countries in which they circulated, though this continued for only a few months, and on the whole there has been, since October 1893, a net exportation of rupees from India amounting, in the case of exportation by sea alone, to a sum in excess of two crores. There was probably also a return of rupees from hoards into circulation under the influence of the relative cheapness of silver. Speculative influences were also largely brought into operation, reports as to the intended re-opening of the mints being industriously circulated. Later, when the effect of these influences had been dissipated, and the exchange value of the rupee began to rise towards the level of sixteen pence, another adverse influence arose—the outcome of want of confidence on the part of the public in the future of exchange—in the desire of persons in England to convert their Indian investments (in rupee paper and otherwise) into a sterling form, and of persons in India to remit their savings and profits and even their investments to England while they could do so at a rate of exchange which they were led to believe could not be maintained. The exchange market has been greatly affected by remittances of these descriptions.

5. It is, now, therefore, clear that in June 1893 the volume of the currency was greater than was consistent with the immediate establishment of a rate of exchange of 1*s*. 4*d*. the rupee; and it will be borne in mind that, even after the mints were closed, a further increase was made by the acceptance and coinage of the silver of the Exchange Banks which was in transit. This cause of difficulty however diminishes, under the operation of the causes mentioned in paragraph 3, every year during which the mints remain closed; and it is certain that we are now much nearer a volume of currency consistent with the rate named than we were in 1893.

6 But our progress towards that rate has been greatly affected by the entirely abnormal state of trade during the last year. The exchange value of the rupee almost touched sixteen pence in the cold weather of 1896-97, and if trade had been normal instead of being injuriously restricted by the effects of plague and famine, it is possible that it would have been maintained throughout the year at a rate more or less approximating to that level.

7. The fact that exchange attained so high a rate as that which has prevailed since December last, immediately upon the setting in of more normal conditions of trade as soon as the famine came to an end, seems to us still further to indicate that, apart from the adverse circumstances which we have specified, the tendency of the exchange value of the rupee is to rise under the influence of the causes specified in paragraph 3 of this despatch;

and, though the rupee has recently somewhat fallen, we believe that this is in some measure due to the continuance of the plague in Bombay, which is undoubtedly affecting adversely the trade of that port. In our opinion, therefore, there is some reason to think that, if we could only pass that stage of distrust which appears the moment exchange approximates to sixteen pence, to bring into operation influences which interfere with the actual realisation of that rate, we might expect it, under normal conditions of trade, to attain the level at which gold would be tendered under our notification of June 26, 1893, and the introduction of the gold standard would become practicable.

8. It is, no doubt, possible that gold may be tendered in the early future, though the course of events during the month of January, and since the passing of Act II of 1898 (amending the Indian Paper Currency Act), leads us to think that it is not very probable. In any case, it is extremely unlikely to be presented in such quantity as to lead automatically to an accumulation of gold sufficient for a reserve; and, under these circumstances, we believe that it will be wiser not to pursue a course of inaction which may be prolonged indefinitely, and that it is desirable in the interests of the State and of the mercantile community to terminate the period of transition without further delay. To the State it is really cheaper in the end to acquire a reserve of gold by borrowing, and thus keep the exchange value of the rupee at a steady level of sixteen pence, than to bear for years the burden of expenditure entailed by the lower level of the rupee in the discharge of our sterling liabilities in London, in the issue of the pay of the British Army in India (that being fixed in sterling), and in the payment of exchange compensation allowances. To the mercantile community we are under some obligation to effect the prompt establishment of that fixity of exchange which was the main reason for the closure of the mints in 1893. It is not desirable that their legitimate business transactions should be hampered and embarrassed by the uncertainty of exchange, nor is it good for the country that the want of confidence in the stability of the rupee should discourage the investment of capital in India, while all available capital is remitted to England whenever the exchange value of the rupee rises to a high level. A prolongation of the period of transition may also be accompanied by recurring periods of stringency in the money market, and by inducements to speculate in exchange operations to the injury of legitimate trade. For these and other reasons, and in view of the length to which the transition period of our currency policy has already extended, we are of opinion that we ought not to wait longer for the attainment of our object by the gradual operation of the causes described, however certain we may be that they would in the end produce the desired result; and that we ought at once to take active steps to secure the early establishment of a gold standard and a stable exchange.

9. Our first endeavour should be the accumulation of that reserve of gold which, as was pointed out by Lords Farrer and Welby in their minute appended to the Report of the 1893 Commission, is a necessary preliminary to a gold standard. They thought it possible that this reserve might be automatically attained; but of this we have little hope without longer waiting than we consider advisable. We know now that one of the main reasons of this failure is that our rupee circulation had before the closing of the mints been increased to such an extent that it fully, and more than fully, supplied all the demands of trade, and allowed no room for any further addition in the form of gold. We consider therefore that the remedy for this state of things

is to remove from circulation as money, so much of the increases which were made to the circulating medium immediately before 1893 as we may find to be redundant. The necessary condition of a fixed rate of exchange between two countries is that, when the currency of one of them becomes redundant as compared with that of the other, the redundancy may be relieved by the withdrawal, for a time, of the excess coin, and we wish therefore to reach the condition in which our circulating medium (using that term in its widest sense, as embracing not only active circulation from hand to hand, but the inactive reserves of Banks and of the Treasury and the like) is not composed wholly of silver coin which has no equal value outside the country, but contains also a margin of gold which is capable of being used elsewhere as coin, and will therefore in natural course flow to where it is most wanted. Our total rupee currency is estimated to be at present somewhere about 120 crores, to which we have to add 10 crores of fiduciary circulation of currency notes. This amount may therefore be said to have been ascertained by experience to be much more than is consistent with a maintenance of a rate of sixteen pence in the season of inactive trade and to be a little more than is consistent with that rate at the time of active trade.

10. It is impossible with any exactness to say, and it can only be ascertained by actual experience, by how much this rupee circulation has to be decreased in order to remove its redundancy. (It must be remembered that redundancy is a relative term; what is sufficient for a rate of exchange of 14*d.* the rupee is necessarily redundant for a rate of 16*d.* We use the term in this despatch with reference to a rate of 16*d.* the rupee.) But some considerations point to the amount being within quite manageable limits. For example, there are 24 crores, more or less, of currency notes in circulation including the amounts held in our own treasuries. If we could imagine that amount of circulation, at present existing in the form of currency notes, suddenly converted into £16,000,000 in gold, it seems impossible that Indian trade should be able to get on without having part at least of that amount held in actual circulation; in other words, it would not be possible for the amount of gold coin to be remitted out of the country without the value of the rupee being forced up to a point which would arrest the stream of export. If this is the case, 24 crores of rupees is the outside limit of the amount which it might be necessary to convert into gold coin, in order to introduce a stable exchange of 16*d.* accompanied by an actual (active or inactive) circulation of gold at that comparative value; and it is more than probable that the amount required may really fall far short of this.

11. The mere reduction of circulation might be carried out in the same way in which it was effected in 1893, namely, by abstaining from drawing Council Bills, until we have an accumulation of, say, twenty crores in excess of our ordinary balances. But this procedure would be both costly and, as we believe, ineffective; in the first place the permanent locking-up of twenty crores of rupees would cost us in the interest on that amount, or on the amount of gold borrowed in England during the suspension of drawings, and in the second place the existence of this accumulation of silver coin would be a perpetual menace to the exchange market, and would entirely prevent any confidence in the future of the rupee. We must not only withdraw the amount from circulation, but we must show by the method we adopt that our intention is that it should cease to exist in the form of coin, and that its place, as coin, is to be taken by gold. Our proposal is therefore to melt down

existing rupees, having first provided a reserve of gold both for the practical purpose of taking the place of the silver, and in order to establish confidence in the issue of our measures.

12. With reference to the proposal to melt down rupees, we desire to invite Your Lordship's attention to the fact that an actual reduction of the silver currency was an integral part of the proposals made by the Government of India in their Despatch No. 160 of June 21, 1892, as will be seen by a reference to paragraphs 10 and 12 of the minute of the same date which sketched the method which the Government proposed to adopt for the introduction of a gold standard in India. Those proposals were ultimately adopted, and the first step to give effect to them was the passing of Act VIII of 1893 closing the mints. Just before he quitted office as Financial Member of Council, Sir D. Barbour very strongly urged the adoption of this measure in paragraphs 13 and 14 of his minute of October 16, 1893, which formed an enclosure of Despatch No. 357 of November 1, 1893. The Government of India again urged the same measure in the telegram of December 30, 1893. It will thus be seen that this proposal is no new thing, but is one which has from the first been advocated by the Government of India.

13. The annual consumption of silver in India may be put down at about Rx. 6,000,000 worth. The actual figures of recent years are as follows :—

Value of net import of silver.	Rx.
1894-95	6,329,200
1895-96	6,582,200
1896-97	5,586,000
1897-98 (nine months only)	5,472,300

We ought to be able to supply nearly the whole of this market, our rupee standard (·916) being good enough for most of the purposes for which silver is imported into India, and thus in a single year we might calculate upon disposing in this way of ten crores of rupees of coined silver, being the equivalent of the above value, and reducing by this amount the actual rupee circulation of India. As bearing on the question of our finding a market for the bullion obtained by melting rupees, we may mention that nearly the whole of the silver consumption in India before 1893 was supplied by melting down our rupees, the amount of fine silver passing direct into consumption being comparatively small.

14. We do not regard this measure as having any important permanent effect on the silver market, even if we were under any obligation to give weight to such considerations. The annual production of silver is valued at £18,000,000, while our sales would be limited to six crores worth, or say £4,000,000 a year, and would probably last over only a year or two.

15. We may observe that our proposed selling of silver in addition to its direct effect on the rate of exchange would also have a not unimportant indirect effect, inasmuch as the operation would meet the demand for silver in India, and thus increase for the time the balance of trade that has to be discharged by Council Bill remittances.

16. Our first step, however, is, as already indicated, to obtain a reserve of actual gold coin, and this we can only do by borrowing in England. Our proposal is that Her Majesty's Government should move Parliament to pass an Act giving the Secretary of State power to borrow up to a maximum of £20,000,000 for the purpose of establishing a gold standard in India. It is possible that the

whole of this amount may not be required, but we believe that the possession of the power to push our efforts in the direction we indicate until our object is attained, will greatly enhance the effect of our first more limited operations. The amount which may actually be required in order to establish exchange steadily at the level of 1*s.* 4*d.* the rupee, can, as we have already said, only be determined by experience, and we have named as the maximum to which borrowing power should be taken, an amount which, we may take it, is certainly sufficient, and the interest on which the revenues of India can afford to pay. We think it most desirable that the maximum should be so fixed as to avoid any risk of having to move Parliament a second time for further borrowing powers; and the Act should provide that the borrowing shall be in such instalments as may be deemed desirable by the Secretary of State, and should require the Secretary of State to ship to India immediately in sovereigns the amounts borrowed under the powers.

17. It will be desirable to keep the powers under the proposed Act distinct from the Secretary of State's general borrowing powers; and the operations under them should be kept distinct from those under the ordinary borrowing powers and during the continuance of the transactions, held in separate account.

18. We recommend that, as soon as the Statute is passed, Your Lordship should at once borrow and ship to India £5,000,000 in gold. The sovereigns would be placed by us in our Reserve Treasuries, and held ready for such use as events may show to be expedient.

19. The first use to which this gold would be put would be to supply the deficiency in our balances caused by the sale of silver. We may reckon that our sale of ten crores of coined rupees would return to our treasuries only Rx. 6,000,000 and the balance of Rx. 4,000,000 would have to be made up out of the gold we have in hand, and would absorb about £2,700,000 of it. The result of the first year's operations would therefore be, omitting altogether any effect it might have in diverting gold towards India in ordinary course of commerce (that is, under conditions the same as those now existing) that Rx. 6,000,000 of existing rupee currency would be taken out of public use and paid over into our treasuries instead of being returned into the circulation in payment to the importers of silver; and that a further sum of Rx. 4,000,000 would cease to exist as coin forming portion of our balances, being replaced therein by £2,700,000 held in gold.

20. Suppose the operation to be repeated a second year; the amount of current circulation available for trade purposes would be reduced by Rx. 12,000,000, and the amount of coined rupees in our possession, changed into the form of gold, would be £5,300,000, giving a total reduction of silver rupee currency of twenty crores. But the considerations we have above stated indicate that before this point is reached, the exchange rate would have attained the level of 16 pence, or even higher, and sovereigns would have flowed into the country to fill up the deficiency of current circulation outside our own balances, caused by the withdrawal of silver coin. It is not our intention to part with any of the gold in our possession until this condition of things is reached, and as we can, under the law, always pass it into the currency reserve, we shall find no difficulty in retaining it.

21. When we have reached the stage in question, the sovereign will be a recognized coin of the Empire, in use in its chief cities at least, and as long as this condition can be maintained, the exchange will be stable at about 16*d.*

We always have it in our power to carry the operation even further by withdrawing a still larger quantity of silver and replacing it by gold coin; and we recognize that circumstances may arise in which such a measure may be forced upon us. But our present intention is rather to trust to the automatic operations of trade. The amount of coin required for the needs of commerce increases every year; and as we permit no increase in the amount of silver coin, we may reasonably expect that the effect of the increasing demand for coin will be to raise exchange to a point at which gold will flow into the country, and remain in the circulation of it. The position will thus become stronger and stronger as time goes on, but at the beginning at least gold will not be in circulation in the country to more than the extent necessary to secure stability of exchange. The mass of the circulation will be a silver circulation, maintained at an appreciated value (just as it is at present), and we can be content to see gold coin remain little more than a margin, retained in circulation by the fact that its remittance out of the country would create a scarcity of coin which would have the effect of raising the exchange value of the silver rupee in such manner as to bring it back, or at the very least to stop the outward current of remittance. We shall have attained a gold standard under conditions not dissimilar from those prevailing in France, though not a gold circulation in the English sense; and this last may possibly not be necessary at all.

22. We cannot help thinking that the determination of the Government to take active steps in the manner we have stated, will have the effect of reversing the influence of the distrust in the future of the rupee, which at present not only prevents the importation of gold to meet the demands of trade, notwithstanding the much higher rate of discount and interest prevailing in India, but also keeps sterling capital out of the country. If this distrust were once overcome by the sight of the Government actually importing gold and taking measures, at some cost to itself, to introduce gold into the circulation of the country (that is, into the reserve or marginal circulation, even if it does not find its way into active circulation), we believe that before the Rx. 12,000,000 has been withdrawn from the public circulation, gold will have flowed in to take its place; and the current circulation will have reached the condition in which it adapts itself to the fluctuations of the trade demand upon it, by the process of transfer of coin from India when it is redundant and to India when it is deficient.

23. In the circumstances in which India is placed this ebb and flow of gold would probably take place through the operation of Government remittances. The Government of India would remain under the obligation to remit £16,000,000 or £17,000,000 to England in every year. The real remittance has to take place in exported produce, of which the accounts are adjusted through Council drawings. It is our assumption throughout that this balance of trade will continue, and that it is consistent with the maintenance of the exchange value of the rupee at 16 pence; and past experience, in our opinion, fully warrants this assumption. The outflow and inflow of gold will be merely the adaptation, in point of time, of the drawings of the Secretary of State to the adjustment of the annual balance of trade; that is to say, the gold may be expected to flow from England to India during any period in which the demands for trade remittance are in excess of the amount made available by Council Bills, and in the opposite direction when Council Bills are in excess.

24. The cost of the proposed measures remains to be estimated. The interest on a sterling loan producing £20,000,000 would be £550,000 a year; and this is the maximum charge for interest which we contemplate having to incur. But we have said that it will not be necessary to borrow so much as £20,000,000 to effect our object, and that very probably the first instalment of £5,000,000 will prove to be sufficient. If it should, the interest charge will be about £130,000 a year.

The question of the manner in which the loss on the melting down of our rupees will be entered in our accounts, that is whether it will be shewn as a charge to Revenue, is a subordinate matter. We have indicated above that, for the present at least, we propose to keep the transactions in separate account. What we shall actually lose will be the appreciated value of the rupees which now form portion of our balances.

25. We have been led by public discussions in England to believe that Her Majesty's Government might be willing to entertain the proposal to give assistance to India, in some shape, towards the attainment of the object we have in view. While we cannot plead inability on our own part to carry our proposals into effect, at any rate so far as the stage to which at present we propose to confine them, we think it our duty to represent that the establishment of a gold standard in India is a matter of Imperial concern, and that India may fairly claim that the whole burden should not be put upon her. We would urge that Her Majesty's Government should contribute not only in material assistance, but by creating that greater confidence which will undoubtedly be the result of their publicly assuming a share of the liability.

26. We believe that the effective introduction of the gold standard will be welcomed by the banking and mercantile communities and by the public of India. It has indeed been pressed upon us strongly by the Bengal and Madras Chambers of Commerce (copies of whose letters will be found among the enclosures) and in the press that the time has arrived to put an end to the uncertainty and fluctuations of exchange; and the discussion in the Bombay Chamber of Commerce on February 9 indicates that the members of that Chamber share this opinion. We think, therefore, that we may expect their support in the measures we propose, though neither the Bengal Chamber nor the Bombay Chamber has declared in favour of any particular scheme to secure the object, and the Madras Chamber has supported with some modifications, the proposals of Mr. Lindsay to which we allude below. Accordingly, we strongly urge that no time should be lost by Her Majesty's Government in giving effect to our proposals.

27. Evidence of the widespread concurrence in the feeling to which the Chambers of Commerce have given voice will be found in the number of schemes which have been proposed to attain the object aimed at in our present proposals and in the interest evinced in the discussion of those schemes. We gave careful consideration to all such schemes and suggestions as promised any practical solution of the difficulties before we decided to adopt the scheme we have now recommended to Your Lordship; and we think it well to allude to the two best known of them.

28. The first of the two is one recently republished in this country in association with the name of Mr. A. M. Lindsay; and is the type of several others, all of which have as their object the establishment of a gold standard without any actual gold currency. It is, briefly, that, in addition to offering

to receive gold in exchange for rupees at the rate of sixteen pence, the Government should also offer to receive rupees in exchange for gold at a somewhat lower rate, sterling drafts on London being issued in exchange for rupees. As it may not have been made public in England in full in its most recent shape, we print it as an enclosure as it appeared in a recent Indian newspaper under, we believe, Mr. Lindsay's own authority. This scheme, like our own, operates largely through the withdrawal of rupees now in circulation, and though it has much to recommend it, our main reason for deciding not to adopt it is that it would involve us in a liability to pay out gold in London in exchange for rupees received in India to an indefinite extent. Even if the ultimate liability were not greater than under our own scheme, still its extent, from time to time, would be quite beyond our control, and we can easily conceive that we might find ourselves unable to discharge it on certain quite possible suppositions as to the market rate of exchange and as to the comparative redundancy of the existing volume of the rupee currency. Mr. Lindsay, it appears to us, does not give sufficient weight to one fundamental necessity of our position, namely, that we must remit, in the contrary direction to that in which the offer suggested by Mr. Lindsay would be operative, an annual sum of about £17,000,000 to discharge our sterling liabilities. In addition to his anticipation that the Indian money market could not support the withdrawal of the number of rupees which would suffice to dangerously reduce the gold reserve, Mr Lindsay relies on the general confidence in the future stability of exchange which the promulgation of his scheme would induce as being certain to prevent the demand for gold in London rising to a sum which would occasion us any inconvenience; but we think that such confidence is much more likely to be established by the accumulation of a strong gold reserve in India than under his plan, which contemplates the keeping of the reserve in London, and we prefer to establish confidence by that measure without involving ourselves in a liability we might possibly not be able to discharge. Instead of lengthening this despatch by further remarks on Mr. Lindsay's proposals, we append as an enclosure a memorandum by our Honourable Colleague Sir J. Westland which discusses the scheme in some detail.

29. The other scheme we wish to mention is that of Mr. L. C. Probyn, contained in a volume of papers published in 1897 by Effingham Wilson. Mr. Probyn proposes to establish the reserve of gold in India, but in order to prevent the gold passing into circulation and disappearing into hoards (an object which Mr. Lindsay also has in view), he proposes that gold should not be coined but that it should be kept in stamped bars of a high value. We do not think it either desirable or necessary that gold coins should, until the gold standard has for some time been established, pass to any appreciable extent into general circulation: under the scheme we have above proposed, the bulk of the currency in circulation, and practically the whole of it outside the Presidency towns—in which the Banks might, like ourselves, hold reserves in gold coin—would continue to consist of rupees and currency notes. But we do not think it necessary, in order to secure that result, to refuse to have legal-tender gold coins of a convenient value. We are, moreover, not satisfied that there would be any smaller disappearance into hoards of the gold bars, which it would be easy to subdivide, than of gold coins. We are also of opinion that the simpler and more direct a monetary standard can be made, the more acceptable it will be to the public. We think that the only state of things which can be called a thoroughly satisfactory attainment of a gold standard is one in which the gold coins which represent our standard are those also which are good for payments in England.

30. At the same time, if experience should hereafter indicate that there is any advantage in having the gold standard represented by a coin or piece of bullion too large to be used for ordinary monetary purposes, the course suggested by Mr. Probyn, or one like it, is still open to us. It will be observed that we do not contemplate the actual issue of gold coins by the Government, either for treasury purposes or in payment of currency notes, until the measures we have taken actually result in the establishment of the value of the rupee at sixteen pence, and the use of sovereigns to some extent, however small, as a permanent part of the circulation. There is therefore no necessity for our immediately determining whether the gold coin to which we shall give the quality of legal tender (as opposed to exchangeability secured by our own readiness to deal in them at our treasuries at a stated value) should be the sovereign or some other coin, being a multiple thereof; for example, the £5 coin of England. But the transactions of the people of this country are for the most part on so small a scale that even the sovereign would be too high in value for any but casual use, except in the centres of trade; and a coinage, composed like that of France of gold coins bearing their intrinsic value and silver coins bearing a token value, would, for any purpose of actual use in India, contain a very much smaller proportion of gold than the English or French currency. Our present belief is that, even with the sovereign as the standard coin, the amount to be procured and passed into circulation is not so large as to be beyond our means; and we hold that what we ought to aim at, and what we have every prospect of successfully attaining, is the introduction of the English sovereign itself as a current coin, and that gold bars of high value, such as Mr. Probyn proposes, which are not adapted for use, in any sense, as an actual circulating medium, are not a satisfactory form of the possession of a gold standard.

LIX.

Minute by the Honourable Sir James Westland, K.C.S.I., dated the 18th January 1898, examining Mr. Lindsay's Scheme.

Mr. Lindsay's scheme is described in Enclosure No. III* in words which are understood to have Mr. Lindsay's own approval. He proposes that the Government should offer to sell, without limit, on the one hand rupee drafts in India at the rate of exchange of $16\frac{1}{16}$ pence the rupee, and on the other hand sterling drafts on London at the rate of exchange of $15\frac{7}{8}$ pence the rupee. He also proposes that when the demand for gold drafts on London becomes so great as to indicate the necessity, the volume of the rupee currency should be contracted by melting down rupees, the silver bullion being sold for gold.

The funds connected with the transactions are to be kept separate from the ordinary Government balances in "Gold Standard" Offices in London and in Calcutta and Bombay. The London Office is to be kept in funds to meet the drafts drawn on it—

(1) by borrowing in gold to the extent of five or ten millions sterling;
(2) by the receipts realised by the sale of drafts on India;
(3) by the receipts realised by the sale of the silver bullion in rupees melted down: and,
(4) when necessary, by further gold borrowing.

The Indian Offices are to be kept in funds to meet the drafts drawn on them—

(1) by the receipts realised by the sale of drafts on London;
(2) by the coinage, when necessary, of new rupees from bullion purchased by the London Office and sent to India.

The two main objects of the scheme are—firstly, to make the sterling and rupee currencies interchangeable at rates approximating to 16 pence the rupee, and, secondly, in making rupees convertible into sterling, to do so in a manner that will prevent the use of gold as money in India.

2. There is no doubt that a Conversion Fund, which is ready and sufficient at all times to issue sovereigns in exchange for, say, $15\frac{1}{4}$ rupees, and to receive them in exchange for, say, 15 rupees, will have the effect of maintaining the exchange somewhere about these values. So far as regards this object it is immaterial whether the Conversion Fund is held in England or in India, or partly in one and partly in the other. The question of locality merely affects the convenience of the persons who will tender for exchange, and will add to the quarter-rupee difference a further difference in respect of charges of actual remittance.

3. In Mr. Linsday's plan that side of the Conversion Fund which receives and pays gold is located in England partly because, as above stated, one of his objects is to keep gold entirely out of circulation in India, where he thinks it would only be absorbed for hoarding, and partly because the gold will be required only for the settlement of the balance of India's foreign indebtedness, and London, being the great centre for the settlement of international indebtedness, is considered to be the most convenient place for the receipt and

* Not printed in this volume.

payment of gold. Mr. Lindsay also wishes to avoid the withdrawal of gold from London—a measure which might weaken the great central reserve of the Empire.

This feature seems to be a distinct objection to the scheme. The public will regard with distrust arrangements for the establishment of a Gold Standard in India which carefully involve the location of the gold reserve in London and its use there by trade. A gold reserve intended to support the introduction and maintenance of a gold standard in any country ought to be kept in the country if it is to produce its full effect in the way of establishing the confidence which is almost indispensable to the success of the measure. If the Indian gold reserve is located in London and the public believe that it may at any time vanish in supplying the requirements of trade or of the Secretary of State, confidence will hardly be established; and in any case it seems certain that a reserve of any named amount will produce a greater effect if it is located in India than if it is six thousand miles away.

4. The method and principle of operation of the scheme are very much the same as those on which our own proposals are based. Given a circulation composed of a certain number of rupees and given a certain condition of trade in point of volume and activity, the rate of exchange will tend to some definite point. If the number of rupees is diminished or the activity of trade increased, the rate of exchange will rise, and *vice versâ*. It follows that if rupees are bought and locked up, the rate of exchange will be raised, and if the Government offers to buy them up at 15¾ pence and continues to so buy them up as long as they are offered (as they will be as long as the exchange value is less than 15¾ pence), the value will ultimately be raised to 15¾ pence. But it is merely an assumption that the difference between the number of existing rupees and the number at which the exchange would rise to 15¾ pence is so small that the absorption of five millions or ten millions worth would be enough to bring about the result. It assuredly would not have been enough had the scheme been introduced in 1893. It may be enough now that the volume and activity of trade have increased so much above the standard of 1893; but, on the other hand, it may not. The scheme, therefore, would involve the undertaking of an indefinite liability.

5. Further, in so far as the contraction of the rupee currency is concerned, there is no reason why the Government should offer a fixed rate for the rupees, for it would obtain all the advantage which the plan brings by the reduction of the volume of currency, if it were to offer simply something more than the market rate for the time being. The rate proposed by Mr. Lindsay would have been much higher than the market rate if the operation had been begun in 1894.

6. An offer of this kind, it may be admitted, would not have the same effect as the offer of a fixed rate, in steadying the rate of exchange at the desired level. But an offer of a fixed rate of 15¾*d.* can be made economically only at the final stage. Mr. Lindsay's plan, indeed, is not adapted to the preliminary stage in which the Government is engaged in reducing a redundant circulation; it assumes that the redundancy has already been removed, and that the circulation has reached the stage in which at the season when trade is inactive the rupee tends to fall below 15¾ pence, and at the season when it is active it tends to rise above 16 pence. That stage being reached, it is quite possible that the redundant rupees would come into the fund in exchange for gold at 15¼ rupees for the pound in the inactive season, and thus keep the level of exchange up to 15¾ pence, and then be returned into circula-

tion at 15 to the pound in the active season, and thus keep the level of exchange down to 16 pence; and that the amount that would so come and return would not exceed some manageable figure, say five or ten millions worth.

7. The scheme accordingly becomes practicable only when the condition of the circulation has already reached the point where the redundancy, in the inactive season, is reduced to a small amount. Before that stage is reached, it is merely a plan for buying up, without limit and at an unnecessarily high price, the excess of rupees in circulation. Mr. Lindsay contemplates the melting-up and sale of these rupees, for which, *ex hypothesi*, there would be no room in the circulation. To simply lock them up would be useless and expensive; they might as well be melted up and sold, and his plan (so far as this stage of its operation is concerned) differs from that proposed in the despatch only in this respect that he buys in at a higher price than they are worth the rupees which he intends to melt, instead of using those which we already hold at a lower value.

8. Several newspapers published in India in examining Mr. Lindsay's scheme have noticed as a point of objection that it would involve the Government in an unlimited liability to pay gold in exchange for rupees. It may be observed that not only is it impossible to fix beforehand any limit to the amount of rupees to be ultimately purchased, but also the Government would abandon all control of the measures for introducing its gold standard, and under a quite conceivable concurrence of adverse circumstances, might find itself committed suddenly to a liability beyond its immediate resources. This is one of the most important differences between this scheme and that proposed in the despatch to which this memorandum is appended. Under the latter the Government can feel its way and need never commit itself in advance to any liability which it is not fully prepared to meet.

9. There is also an important feature which does not seem to have been sufficiently considered. It is that the plan we have to adopt will not be applied to a market in which the Government (who are the proprietors and workers of the Conversion Fund) can afford to stand aside, and let the operations go on only as between public and public. On the contrary, the problem to be faced is how to maintain the exchange value in the face of the Secretary of State's drawings of 16 or 17 millions a year. Let it be assumed that the stage has been reached where the fund is in actual operation, and that the value at which the rupee would stand, in regular course of trade and of drawings without the aid of the Conversion Fund, is somewhat below 15⅞ pence, but that it is maintained at this rate by banks paying their surplus rupees into the Fund, and taking gold out of it for employment in England. Mr. Lindsay states that under his scheme the sales of Council Bills are under such circumstances to be continued on their present footing. During the operations just supposed therefore, the Secretary of State will be selling Council Bills on India. The expectation, it is presumed, is that he will sell them at a rate approaching an exchange of 15⅞ pence; for it can hardly be contemplated as possible that he would for any length of time simultaneously sell sovereigns at a cheap rate and buy them at a dear rate. The Secretary of State accordingly receives gold from banks in England, and gives them bills on the Treasury in India, while at the same time the same or other banks pay rupees into the Conversion Fund, drawing out gold in exchange. The only final operation is that the Secretary of State has passed a certain amount of gold from the Conversion Fund into the India Office Treasury:

the banks, as a whole, remain unaffected, and the situation is exactly the same as if the Secretary of State had suspended drawings for the time, and met his requirements in the inactive season with money directly borrowed against the intended heavier remittances of the active season. In short, the Conversion Fund under such circumstances gives no facility and no machinery which is not, under the existing system, available by means of suspension of drawings. If the amount suspended in the inactive season is more than can be recovered by excess drawings in the busy season, then *ex hypothesi* the rupees paid into the Conversion Fund in the inactive season are greatly in excess of the amount for which a demand would be made upon it in the busy season, and the case is that described in the latter part of paragraph 7 above, namely, the final withdrawal of rupees purchased at an excessive price.

10. To consider the other side of the plan, let the supposition now be the contrary of that made in paragraph 9, and that the rate of exchange is tending to rise above the gold point. In that case it is proposed to receive into the Conversion Fund all gold tendered, and with this gold to buy silver bullion to be coined into rupees until the requisite addition being made to the circulating stock, the value of the rupee falls to sixteen pence. That is to say, when circumstances arise in which gold would naturally in response to the demands of trade find its way into circulation in India, the scheme contemplates special steps to prevent that result in order to substitute silver for gold as the required addition to the volume of the currency.

It has been stated in paragraph 8 of this memorandum that, if Mr. Lindsay's initial assumption proved erroneous, the Government would be deprived of all control of the measures for introducing the gold standard in the matter of the payment of gold for rupees. Here we find that, if Mr. Lindsay's assumption be correct, the Government are vested with a sensible degree of control of the volume of the rupee currency, for new rupees are to be coined from bullion bought with gold from the Gold Standard Offices, at the discretion of Government. This is not a feature of the plan that can commend itself in principle, for the regulation of the sole full legal tender currency of a country should be entirely automatic and not in any degree dependent upon the discretion of the Administration.

11. This special interference of the Government is suggested in pursuance of one of the two main objects of the plan. But it seems very doubtful whether the object of the interference—even if the interference were in itself unobjectionable in principle—is really worth attaining. Instead of requiring the Government to make additions of its own motion to the currency, would it not be a more healthy state of things that the state of par should be maintained by the natural backward and forward flow of excess currency in the hands of the public? And when the circumstances assumed in this paragraph arise, would it not be preferable to let the gold coin go into actual circulation?

12. The par of exchange between rupees and gold will be maintained only by exporting redundant rupees, in some form or other, and when the stage is reached where the circulation as a whole is sometimes redundant and sometimes deficient (with reference to a value of sixteen pence), the par will be maintained only by an arrangement by which the redundancy will ebb in the form of coin to England and the deficiency be corrected by the flow of coin from England. Mr. Lindsay's proposal is to make this ebb and flow take place in rupees, and it may be admitted that it would so operate, though

not (except at inordinate cost) to raise the rupee circulation to the point where the stage of ebb and flow comes into operation. But it will be far preferable if the margin of circulation which is to ebb and flow consists of sovereigns which can be directly utilised in England: India will then have a gold standard in the simplest and most convenient form. The number of rupees in circulation must be so reduced that they shall even at the most inactive time of trade, be insufficient with reference to an exchange of sixteen pence, and will even then require to be supplemented (mainly, if not entirely, in respect of the less active circulation which is represented by the reserve of banks and of the Government) by further coin. That coin should be gold, and under the scheme proposed in the despatch, it is sovereigns only which would find their way into the circulation, when the rupees became deficient; and the sovereigns included in the circulation will form that margin of it which ebbs and flows in the manner above described.

LX.

MINUTE BY THE HONOURABLE SIR JAMES WESTLAND, K.C.S.I., DATED THE 1ST OCTOBER 1898.

1. Having read the evidence given before the Committee of Enquiry into the Indian Currency, I desire to submit some observations with reference to it. I have of course no intention of entering into any arguments on the subject of the enquiry; that would be out of place; and my object is to elucidate some questions of fact referred to by witnesses, which perhaps the very familiarity of the subject to us in our daily administration prevented our bringing into sufficient relief. I allude especially to the position which the Government occupies in India as the holder of what may be called the Banking Reserve of the country,—a fact perpetually present to our minds and largely guiding us in our operations, both with reference to the maintenance of our own balances and to the drawings of Council Bills, but which is not, I think, sufficiently realised by some of the gentlemen who have given evidence before the Committee.

2. The great difference between the position in this respect of the Treasury in England and that in India may be seen from the following figures. I shew first those relating to England. (The figures are taken from the "Economist," and though they do not precisely correspond as to date, they are good enough for the present purpose):—

In thousands of £.	Exchequer Balance in the Bank of England.	Cash Balance in the Bank of England.
End of December 1897 . . .	3,785	19,885
" January 1898 . . .	5,991	22,774
" February 1898 . . .	11,907	23,606
" March 1898	9,918(*a*)	21,662
" April 1898	5,286	22,720
" May 1898	7,230	26,046
" June 1898	4,800(*a*)	27,071

It will be seen from these figures that the Exchequer could at any time, if necessity arose, realize or spend the whole of the balance at its credit without causing the Bank of England to feel any but a temporary difficulty,—a difficulty which possibly might not be great enough to cause any steps of sufficient magnitude to affect, or even to come to the knowledge of, the public.

3. Now, take the figures for India. I have had them made up in the annexed tables A and B for each week of the quarter, January to March 1898. It has to be remembered that according to the contract with the Presidency Banks the head "Public Deposits" in their weekly returns is practically synonymous with balance at credit of Treasury; the balances of the High Courts and their officers, of Railway Companies, and some others which form a not inconsiderable aggregate of public money, lie outside these amounts and

(*a*) I cannot find the actuals; this figure is taken by deducting from the total Exchequer balance one million assumed to be the balance in the bank of Ireland.

are reckoned in India as private accounts. The average of the 13 weekly returns is :—

Thousands of Rs.	Balance at credit of Governments.	Cash Balance of the Bank.
Head Offices—		
Bank of Bengal	739	791
Bank of Bombay	527	636
Head Offices and Branches—		
Bank of Bengal	1,576	2,019
Bank of Madras	505	953
Bank of Bombay	873	953

It will be seen that a demand by Government for the use of its balances would leave the Banks with an utterly insufficient amount of cash for their requirements—would in short deplete both the financial centres and the principal towns in the interior of nearly the whole of the banking balances.

4. In comparing England with India in this respect there are two features in the comparison which greatly aggravate the position as regards India. First, the balance in the Bank of England, large as it is, is after all only a portion of the available cash in London. The number of banks in London is legion, and even though the bulk of their available balances may be represented by a deposit account of the Bank with England, yet a large amount on the whole remains in their own possession; and the diminution of the balance in the Bank of England by the whole amount it holds at the credit of the Exchequer would be a small tax upon the whole banking balance of the place. In India this is not the case, the Cash Balance of the Presidency Banks is a much more important factor in Calcutta or Bombay, for the Exchange Banks hold a comparatively small balance in their own coffers, and even that is, I believe, sometimes an advance from the Presidency Bank. Secondly, the nexus between the Bank of England and the general available cash of the country is infinitely closer than that which exists in the case of the Indian Presidency Banks. The withdrawal of, say, five millions of Exchequer Balance from the Bank of England for the purpose of meeting Government payments due throughout the country might deplete the available cash of the Bank of England for a week or two, but the amount would speedily flow back again through a thousand different channels and the cash position of the Bank would be as strong as ever. In India, on the other hand, payments of the kind do not flow back till after a considerable time, and partly do not come back at all. A war on the frontier, a famine in a province, or heavy expenditure upon railways will absorb large amounts of cash part of which dribbles back slowly, and part of which for practical purposes never comes back at all.

5. These considerations introduce great difficulty into the management of the Government Balances in India. It is not merely that we are obliged to have close regard to the demands that are coming upon us in respect of the payments due on Government account during the next few months, but that we are obliged to have regard to future commercial demands also. Just as the Directors of the Bank of England or of the Bank of Bengal, when they feel a strong commercial demand, would be false to their trust if they were merely to say "we have so many millons, or so many lakhs, in our Treasure chest, and there is therefore no use of our interfering with the demand; let us go on giving out money as long as we possess any"; so the Government

in India is bound to carefully guard its balances against depletion brought about either by the payments, which it has in due course to meet, or by too sudden withdrawal and dispersal through the channels of commercial demand. The above-imagined policy on the part of the Bank Directors would inevitably bring about a crisis in a very short time, and carelessness of management of the same kind—a concession to immediate commercial demand without having any regard to the future—would bring a crisis on the money market in India, much more severe and much more rapid by reason of the smallness, the almost non-existence, of any margin to fall back upon.

6. This position of responsibility is forced upon the Government in this country, not of its own will, but because it is accepted by the Banking and the Mercantile Community as the monetary system of India. The whole commerce of the country is made to depend upon the Government Balances; and the whole responsibility for the maintenance of an available Cash Reserve in India being thrown upon the Government, it is taken for granted that if there is a monetary stringency, it is due to the deliberate action of the Government. When Bank Directors, to meet the occasion I have been describing, put up the rate of discount, they are said to do what is wise and proper, both in their own interests, and in those of the Commercial Public; when the Government being in India in a similar position, takes similar measures, it is considered to be deliberately causing an undue stringency of the money market.

7. I cannot help noticing that it is almost assumed in the evidence given before the Committee that the Government of India, in their manipulation of Government Balances and of Council Bills, systematically pursue this policy of creating for their own purposes a stringency of the kind described. I have more than once had occasion to give this theory explicit denial. Some important papers on the subject were published in the *Gazette of India* of February 23rd, 1889 (page 115, etc.), which were intended to show, and in my humble opinion did show, that our one endeavour in managing our balances was to make things as smooth for the money market as it was possible for them to be, consistently with a system under which the Banks kept very little available money of their own. But explanations of the kind are readily forgotten in a place like India where every one has his own business to attend to, and cares little to read and bear in mind official documents like those to which I refer. I may mention that within this last week I see it stated in the financial article of a widely circulated journal that "Government has been busy reducing its balances with the Bank of Bengal and the Bank of Bombay." I have not enquired into the facts, but I have no doubt that the real explanation is exactly what I gave in paragraphs 22 and 23 on page 124 of the above quotation, from the *Gazette*, *viz.*, that the so-called artificial reduction of Government Balances at the Banks is nothing more or less than the issue of the amount to the public in the form of Council Bills.

8. I may mention as regards the Government Balances at the Presidency Banks that for the express purpose of preventing any manipulation of them either in the direction of stringency or of the opposite, we work them upon a purely mechanical system. A maximum and a minimum limit are fixed, both very much in excess of the minimum stipulated in the contract with the Banks; and the rule is laid down that when the balance is above the maximum, the responsible account officer withdraws a certain amount into the

Reserve Treasury; when it falls to or below the minimum, he passes money into it from the Reserve Treasury. This rule is departed from only (1) when we are raising a loan, and, in order to let it fall easily on the market, allow the Presidency Banks to retain a nominally excessive Treasury balance. (I call it nominal because the transaction is the result of a credit to Government on the Bank's books by debit to advances on Government Securities, and the Bank for the moment does not really possess any funds available in cash against it); (2) when our general balance is so severely depleted that for the time we cannot spare funds from the district treasuries to maintain the usual standard of Cash Balance in the Presidency towns. There is, therefore, so far as the Bank balance is concerned, no manipulation for the purpose of creating stringency, or of affecting the rate of exchange.

9. I come now to the question of Council Bills. It seems almost a truism to say it, yet it seems necessary to call it to mind that the amount of Council Bills that can be issued by the Secretary of State is strictly limited. I say this, because it seems to me that the accusation of causing stringency is founded in some cases on the mere fact that the Secretary of State has not issued bills for the whole amount required for the payment of the balance of trade. The amount which it is possible to draw in a year may, for ordinary times, be reckoned thus—

	Rx.
Surplus of revenue in India over expenditure in India, including expenditure on Capital Account . . .	23,000,000
Money raised by loan in India for Capital Expenditure . .	3,000,000
Total available .	26,000,000

These figures vary of course from year to year, but it must be clear that whatever the figures are, they limit the amount for which the Secretary of State may draw.

10. Now, as pointed out at length in the papers of 1889 which I have already quoted, the minimum balance with which we can carry on the business of the Government in India is about eight crores; this eight crores includes the balances at our credit in the Presidency Banks and their Branches. Our balances went down to that figure and below it in the end of the year 1896 and again in the end of 1897; that is to say, in both of these years the Secretary of State drew even more than was consistent with safety; he could not have drawn more for the simple reason that we had no funds wherewith to pay. So anxious were we to supply the money market with a full amount of Council Bills that in December 1896 we took special legislative measures to add to our Cash Balances two crores of rupees out of Currency Reserve, and thus enabled the Secretary of State to enhance his drawings by that amount. And again in January 1898 we passed a special law to enable the Secretary of State, if necessary, to draw Council Bills against our Currency Reserve. In the present year, 1898, our Council Bill programme was again based on the calculation that we should place at the Secretary of State's disposal, for drawings, everything we could spare subject to the condition of our having eight crores in our Cash Balances at the minimum period. (The exact figure—I have the estimates before me as I write—was 857 lakhs.) Our prospects as regards balances have been much improved by better revenue, and we communicated the fact to the Secretary of State in July and again in September for the express purpose of enabling him to enhance his drawings

up to the limit of our capacity to meet them; and he enhanced them accordingly. Surely what I have stated afford the most ample evidence that our policy throughout is the very opposite of seeking to raise exchange by causing stringency. We have consistently done our best to place at the disposal of the market every surplus rupee we can spare.

11. The truth is that in India where it is too much the habit to look to Government for everything, it seems not unnatural to expect the Government to finance not only the administration of the country, but its trade and commerce also. Accordingly, when commerce finds a deficiency of available funds, the cause of the deficiency is sought for not in the scarcity of banking capital, but in some action of the Government, which is expected with resources that are often barely sufficient to meet the financial requirements of its own administration, to supply also all that is wanted for the movements of two hundred crores of imports and exports.

12. One difficulty which is alluded to in some parts of the evidence is that our revenue does not come in equally during the year. This is of course a necessity in a country where so much of the revenue is land revenue, and has to be collected at the time when the revenue payers can most easily afford to pay it, *viz.*, the time of harvesting and disposing of their crops.

I find the following is a rough estimate of the distribution, through the year, of the 26 crores which, as above mentioned, become available for drawings. I take the three crores of debt as received half in July and half in August:—

	In thousands of Rx.		In thousands of Rx.
April	600	October . . .	300
May	1,900	November . . .	700
June	3,000	December . . .	2,500
July	2,500	January . . .	5,500
August	1,300	February . . .	3,100
September	00	March . . .	4,600
		Total . . .	26,000

13. Now, if the Secretary of State could distribute his drawings after the above fashion (or rather take the figures a month later so as to allow the excesses of revenue to be brought down to the Presidency towns to meet his bills), the result would no doubt be that our excess Cash Balances (that is, the surplus over what we require for treasuries that are not in charge of Banks) would be wholly, or nearly so, at the disposal of commerce. But I must point out that this is more a theoretical possibility than a real one. As I have already explained, there are no funds for Government to fall back upon, if it surrenders to commercial uses its own Cash Balances and then suddenly finds that it must alter its programme of revenue and expenditure. There have been two crises of that kind within the last two years. The first was in October 1896 when the rains failed and prospects of famine suddenly made their appearance in India. We realized that the first and necessary step was to make large remissions of revenue at once; this came upon us just as our balances were descending to their minimum, and there was no remedy but to call upon the Secretary of State immediately to suspend his drawings, which were being as usual so regulated as to leave no margin in December. The second was in the outbreak of frontier warfare in August and September 1897 when again we were obliged to stop the Secretary of

State's drawings in order that we might have money to expend on the necessary military operations.

14. It is not possible for us therefore, dependent as we are upon our own resources, to carry on the administration with our balance continually hovering about eight crores. We can afford the risk of letting it run down to eight crores in November and December when we know we shall be amply in funds again when the revenue comes in in January. But if we had to keep to one figure all the year round, we would not be safe under a minimum of eleven crores (that is to say, a continual margin, against possible sudden claims, of three crores). Thus the proper way of describing the policy under which we might place our margin of money at the disposal of commerce would be "Reckon Rx. 11,000,000 as your minimum current balance; but inasmuch as you can stand the risk of letting it run down, for a month or two, but not longer, to Rx. 8,000,000, give commerce the advantage for that month or two of the Rx. 3,000,000 you can thus spare."

15. This is really not very far different from what we actually do; at all events, the argument shews that the money we withhold from possib'e utilisation by commerce is only the excess which we hold over Rx. 11,000,000; and that it is not possible, from a practical point of view, for us to accept as a rule of working: "Eight crores is your necessary minimum, and all that you hold in excess of that should be regarded as available for commercial use." In short, eight crores is not a working minimum; it is a point of danger which we can tolerate if it is to last only for a month or two, but which might at any time land us in disaster, if we tried to work with it for a longer period.

For example, I find that from October 1896 to December 1897 there were only two months in which the Cash Balance was over Rx. 12,000,000.

16. The distribution of Council Bills over the twelve months remains entirely in the hands of the Secretary of State; we, in India, give him from time to time our recommendations, and especially advice as to the amount we can make available for his drawings; but as the primary object of the Council Bills is to place him in funds for the expenditure which he has to undertake, we leave it to him to consider when drawing may be eased off for want of commercial demand, or increased to meet commercial demand. At the same time we are quite aware that the policy of the Secretary of State in the matter is the same as our own, that is, to draw during the twelve months as much as we can meet. The considerations I have set out will shew that the utmost the Secretary of State could do, if he were to neglect in regulating his drawings every consideration but that of momentary commercial convenience, would be that he might occasionally be a crore or two ahead of his drawings as he regulates them on the present system, at the risk of having to pull up after a month or two in order to allow our resources to come up to his demands upon them. I pronounce an opinion as to whether it is convenient for commerce to have a crore a week placed at its disposal in February to April, and then have it cut down to 12 or 15 lakhs a week in May. Of course nothing that the Secretary of State can do will increase the total of his drawings over the twelve months.

17. Having thus placed in the hands of the Secretary of State the regulation of the drawings of Council Bills, we naturally consider ourselves precluded from interfering with his operations by advancing money, even on interest, to the Presidency or other Banks in India. Occasionally, but very rarely, short loans of the kind are made by us, but it is only for the relief of temporary difficulties. The last occasion on which a proposal of the kind was

made to us is referred to in the evidence (Question 8362). In April last the Bank of Bombay, whose rate at the time was 13 per cent., asked us to advance 25 lakhs to it, for a short time, at 6 per cent. This we either formally declined or were on the point of declining when the proposal was altered into one to borrow from us at Bank rate. Within three or four days, however, the stringency of money was relieved, the Bank rate gave way, and we thought the necessity for any extraordinary measure had ceased.

18. Following this general, and as I have been trying to explain false, impression as to our policy in the management of Government Balances and Council Bills, I observe that the proposals of the Government of India made in the despatch of March 3rd have been described as a policy of forcing gold into the country by means of an artificial stringency in the money market. I do not enter upon any argument as to whether that will be their effect—that is a question of opinion on which it is for the Committee to pronounce; but that such is their deliberate intention I may be allowed to deny. The stringency unfortunately is there. I enter upon no argument as to whether it is due to the closing of the Mints, or to the withdrawal of capital from India which began long before the Mints were closed, or whether it is caused partly by the one and partly by the other. But I think I have made it clear that, granting the situation brought about by the currency policy of 1893, the stringency has occurred, not by reason of any action taken by Government, but in spite of all the efforts made by Government to prevent it. The policy we set out in our despatch of March 3rd was a policy which had for its object not to increase it, but to relieve it, and I may represent the argument in this way. "The stringency will not be relieved until capital is sent out to India. Holders of capital are afraid to send it out as long as the currency is on a silver basis, and is in such an amount that a turn of the scale, whether by cessation of activity in trade or in any other way, will send down the rate of exchange. Let us get over this transition stage; let us get to a state of things where, instead of the circulation being composed of 120 crores of silver, it is composed of, say, 105 crores of silver and 15 crores of gold (that is, £10 millions). Capitalists will now see that the money in circulation in the country must be reduced from 120 crores (that is 105 in silver and 15 in gold) to 105 crores before exchange falls below 16 pence; and this state of things will give them confidence enough to send out their money to thus relieve the stringency." This is what is set out in paragraph 22 of the despatch. The argument may be right or wrong; on that point I in this place urge nothing; but the intention I think is sufficiently clear; and it was not an intention to operate through artificial stringency.

19. This explanation will also account for the position given in our proposals to the melting of rupees. While the rupees are still in existence (as they were after the stoppage of drawing in 1893-94) the confidence we hoped to create could not exist. The capitalist would argue: "These rupees, though now withdrawn, may at any time come back into circulation, and I cannot accept it as certain that the Rupee circulation will not exceed 105 crores; while therefore this possibility lasts, I hold my hand."

20. One more explanation on this subject and I have done. The Government never had it in their minds to withdraw rupees from the active circulation by any new operation of withdrawal or recall. Under the monetary system of India which I have explained, rupees are every year withdrawn from circulation in the payment of revenue, especially in the months of January to March, and they are returned to it again through the operation of

Council Drawings. In such a monetary system, the restriction of Council Bill and the withdrawal of silver coin are synonymous terms; the Government can get possession of silver coin for the purpose of melting down, only by the Secretary of State drawing a smaller amount of Council Bills than he otherwise would draw. Our notion was that in this way the reduction of rupee circulation would commence to be brought into effect, that the Secretary of State would refuse to draw under some rate settled from time to time, but at least advancing towards 16 pence, and that the amount he thus withheld would be, by us, permanently withdrawn from circulation, and melted down so as not to be in any way further available in the form of silver currency. How far this operation would have to be carried before exchange was for the time fixed at 16 pence would be matter of experience (paragraph 16 of despatch). We would have to carry it not only far enough to raise the exchange value to sixteen pence for the time, but still further with the aid of our currency reserve (paragraph 20) so as to have a margin to fall back upon—namely, to ensure that the reduction of silver currency would be enough to maintain the sixteen pence value, even if trade were to become more inactive than at the beginning. Meantime we hoped that with this declared policy before us, commerce would find, in the prospect of the rise of the rupee towards sixteen pence and its fixation at that point, sufficient encouragement to send out gold coin for its own needs, just as before 1893 it used to send out silver to the mints when the supply of Council Bills fell short of its requirements.

21. Again, I repeat, it will be understood that I am not here engaged in defending the plan; I am merely explaining the proposals with reference to certain portions of the evidence laid before the Committee. Things have advanced even since the proposals were laid before the Secretary of State; the rupee has maintained itself very near to sixteen pence even during the inactive period of the year; and the redundancy of the circulation with reference to that value—that is, the amount which the Government of India proposed to withdraw from any possible return into circulation—appears now to be less than it appeared in March last.

22. I desire to add some remarks with reference to the allegations about illicit coinage which appear in some portions of the evidence given. We have been making continual enquiries regarding this; but we have not been able to discover that illicit coinage is in any respect more rife than it was before the rupee rose so much above its bullion value. Illicit coinage still goes on in India as everywhere else, but obviously the only kind of illicit coinage that can arise in connexion with the closure of the mints is illicit coinage of standard silver; and discoveries of coinage of base metal have nothing to do with the present subject. What we have ascertained is that the public have had their attention drawn to the subject, and that they are apt, much more than they were before, to suspect rupees which turn out upon examination to be perfectly good. We have arranged for more systematic enquiry, and all I can say at present is that no evidence exists of any greater frequently than formerly of illicit coinage.

23. The coinage of Farrukhabad rupees, alluded to by more than one of the witnesses, has nothing to do with the question of illicit coinage of Government rupees. These are rupees of an ancient currency which bear inscriptions in Persian characters only. I do not believe that a single such rupee is anywhere used as coin in British India, and it is certain that

not even the most simple individual could ever mistake one for a Government rupee. They are largely used as ornaments, and have been largely manufactured for that purpose. They also could no doubt be easily introduced into circulation as money in Native States, where the currency is often in such a condition that almost any bit of silver, bearing a Persian inscription or a part of one, passes from hand to hand rather in barter than as money. The officials of the Gwalior State the other day gave me a list of sixteen different kinds of coin of this description which so passed, at various values, in the State of Gwalior alone.

24. We recently determined that this kind of manufacture was dangerous both because it might interfere with the current coin of Native States, and still more because it might familiarize the people with the notion that coinage was an admissible form of private industry, and we altered the law so as to make it what the law probably always intended it to be, a criminal offence. The recent case was the first in which the change of the law was brought home to the people engaged in this trade; but it obviously indicates no danger of illicit coinage as regards Government rupees.

N.B.—We are probably bound to receive genuine Farrukhabad rupees at one rupee a tola under Section 17 of the Indian Coinage Act.

LXI.

Despatch from the Secretary of State for India, No. 140 (Financial), dated the 25th July 1899.

In my Despatch, dated the 7th of April 1898,* No. 67, I informed your predecessor that it had been decided to refer to a Committee the proposals made by his Government with a view to the completion of the policy initiated in 1893, when, as a first step towards the establishment of a gold standard in India, the Indian Mints were closed. The terms of reference were as follows :—

"It will be the duty of the Committee to deliberate and report to me upon these proposals and upon any other matter which they may regard as relevant thereto, including the monetary system now in force in India, and the probable effect of any proposed changes upon the internal trade and taxation of that country ; and to submit any modifications of the proposals of the Indian Government, or any suggestions of their own, which they may think advisable for the establishment of a satisfactory system of currency in India, and for securing, as far as is practicable, a stable exchange between that country and the United Kingdom."

2. The Report of that Committee was presented to me on the 7th of July, and on that day I communicated its main provisions to Your Excellency by telegraph. The Report was at the same time presented to Parliament, and copies have been forwarded to your Government in ordinary course.

3. In their letter of the 24th of March 1898, No 92,* forwarding letters from important bodies in Bombay on the currency situation, the Government of your predecessor stated that they had finally decided not to revert to the silver standard. In this decision the Committee express their concurrence; and they go on to indicate their conclusion that steps should be taken to avoid all possibility of doubt as to this determination, and to proceed with measures for the effective establishment of a gold standard. With this view, they recommend that the British sovereign be made a legal tender and a current coin in India, and that the Indian Mints be thrown open to the unrestricted coinage of gold. But, while making this recommendation, the Committee think it undesirable that any limit should be imposed on the amount for which rupees should be a legal tender; nor do they consider that you should undertake any obligation to pay gold in exchange for rupees.

4. Your Excellency will therefore observe that the Committee are in agreement with the Government of your predecessor as regards the main lines of policy to be adopted, while differing from them as to the means by which the objects in view should be attained. While concurring in the opinion of that Government that the Mints should remain closed to the unrestricted coinage of silver, and that a gold standard should be adopted without delay, the Committee do not recommend the practical steps proposed for the attainment of this object by the Government of your predecessor, whose recommendations, in the opinion of the Committee, might probably have been modified if they could have foreseen the course of events during the past year, and would seem to have been based to an undue extent on a belief in the immediate effect of a contraction of the currency in raising exchange.

* Not printed in this volume.

5. With regard to the rate at which, if the above-mentioned recommendations are accepted, the rupee should be valued in sterling, the Committee are not unanimous; inasmuch as two members are in favour of a rate of 15 pence; eight, including the Chairman, advise the definite adoption of the rate of 16 pence, which, with unimportant variations, may be said to have been the rate in force during the last eighteen months; and one, while agreeing with the principles of the Report, would prefer to take no immediate action for fixing a ratio.

6. Her Majesty's Government have given to this report the careful consideration which its great importance deserves; they are impressed by the array of arguments and facts embodied in it; and they have come to the conclusion that it is advisable to accept generally and to act upon the principles which it recommends.

7. I have therefore decided in Council that the policy of keeping the Indian Mints closed to the unrestricted coinage of silver shall be maintained; and I request that you will, as soon as you may deem it expedient, take the necessary steps for making the British sovereign a legal tender and a current coin, and that you will make preparations for the coinage of gold under the conditions suggested by the Committee. As regards the permanent ratio which the rupee should bear to the sovereign, after carefully weighing the arguments of those who are in favour of a lower rate than that which now obtains, I have no hesitation in accepting the view of the majority, who recommend an exchange rate of 16 pence per rupee, or 15 rupees to the sovereign, and in this opinion I am confident that Your Excellency's Government, especially after the experience of last eighteen months, will be disposed to concur.

8. I am also in accord with the Committee as to the general principles by which your Government should be guided in the management of your gold reserve in the absence of a legal obligation to give gold in exchange for rupees, namely, that you should make it freely available for foreign remittances whenever exchange falls below specie point, under such conditions a the circumstances of the time may render desirable.

9. I desire particularly to commend to your attention the important recommendation with regard to the improvement and concentration of banking facilities, contained in the separate report of Mr. Hambro.

10. The strong opinion against sterling borrowing for currency purposes which is expressed in the separate report of Mr. Campbell, Mr. Holland, and Sir John Muir, and which is, to some extent, supported by the unanimous recommendation of the Committee in favour of a restriction of the growth of your Government's gold obligations, will no doubt have your careful consideration.

11. I shall be glad to receive any observations or suggestions which Your Excellency's Government may desire to make for the furtherance of the policy which has been adopted.

LXII.

Despatch to the Secretary of State for India, No. 301, dated 24th August 1899.

We have the honour to acknowledge the receipt of Your Lordship's Despatch No. 110, dated the 25th July 1899, forwarding the Report of the Indian Currency Committee. We are informed that Her Majesty's Government have been greatly impressed by the facts and arguments embodied in the report, and have come to the conclusion that it is advisable to accept generally the recommendations of the Committee and to act upon them. Your Lordship has accordingly decided in Council to accept these recommendations, and we are requested to take the measures necessary to carry them into effect. Your Lordship at the same time invites any remarks or suggestions which we may desire to make for the furtherance of the policy which has been adopted.

2. Before proceeding to state the measures and suggestions that commend themselves to us, we desire to express our general gratification at the Report of the Committee. The result will be, we trust, the termination of a prolonged period of uncertainty and anxiety in the trade and public finance of this country. From 1875 to 1892 the question of the exchange value of the rupee was the one financial question dominating all others in India. In the uncertainty as to the course of exchange from week to week, it was impossible to frame a budget with any approximation to certainty or to conduct a mercantile operation without either accepting a peculiar risk or making insurance against it. Henceforward our monetary standard will cease to be affected by the political and financial action of foreign countries, while, if negotiations should again, at any future time, be initiated for an international agreement with regard to the coinage of gold and silver, India would be able for the first time to enter upon such negotiations on equal terms. We look forward to the removal of one of the main causes which have not merely hindered capital from seeking India, but have driven away capital that had already found its way to our shores; and the elimination of the uncertain element of exchange from our calculations may, we hope, enable us to direct our attention at an early date to the alleviation of the burden of taxation and the establishment of a financial reserve.

3. We now proceed to the consideration of the specific recommendations of the Committee. These are :—

(a) that the Indian mints shall continue closed to the unrestricted coinage of silver and should be opened to the unrestricted coinage of gold;

(b) that the sovereign should be made legal tender and current coin;

(c) that the ratio between the rupee and the pound sterling should be 15 rupees to the pound, *i. e.*, that the exchange value of the rupee should be 1*s.* 4*d.*;

(d) that no legal obligation to give gold for rupees should be accepted; but

(e) that the gold reserve now in course of accumulation should be made freely available for foreign remittances whenever exchange should fall below gold specie point, under such conditions as the circumstances of the time may render necessary.

In addition to these five recommendations, which Your Lordship has accepted, you commend to our particular attention the important suggestion made in a separate report by Mr. Hambro for the improvement and concentration of banking facilities by the foundation of a large bank on the lines of the Bank of England or the Bank of France. Your Lordship is also confident that the strong opinion against sterling borrowing for currency purposes expressed by three members of the Committee will have our careful consideration.

4. Having regard to the course of events during the last seven years, it is unnecessary to say more in regard to the recommendation to keep the mints closed to the unrestricted coinage of silver than that we entirely concur in the desirability of removing all doubt on this point. We consider that the exhaustive examination which this subject has received for so many years warrants us in regarding the discussion as now closed. In future, in so far as the coinage of rupees is concerned, the mints will be employed to coin only such quantity as may be demanded by the needs of the country for current circulation. And here we may remark that our estimate of such requirements would be materially facilitated if it should be found possible to give effect to the suggestion made by Mr. Hambro for the establishment of a Bank. The proposal made by the Committee that any profit made on rupee coinage should be held in gold as a special reserve has not escaped our attention; but the need for the coinage of additional rupees is not likely to occur for some time, and a decision on this point may conveniently be deferred. Meanwhile, our mint operations with regard to silver will be confined to the coinage of fractional silver, to the recoinage of rupees which have ceased to be current from wear and tear or otherwise and are withdrawn from circulation, and possibly to the coinage into British Indian rupees of the silver coins of such Native States as may desire to make arrangements with us to substitute our rupees for their local coinage, following the example of the States of Bhopal and Kashmir.

5. Your Lordship is already aware of our intention to act upon the recommendation that the sovereign should be made legal tender and current coin by the introduction without delay in the Legislative Council of a Bill amending the Indian Coinage Act for that purpose. We understand that Your Lordship is taking the necessary steps for the issue of a proclamation declaring the Bombay Mint a branch of the Royal Mint, authorising the coinage therein of British gold coins, and declaring gold coinage coined in it legal tender in the United Kingdom. Our intended legislation will provide for such coinage at any of our mints declared to be a Branch of the Royal Mint. We do not think it necessary to have the Calcutta Mint declared a branch of the Royal Mint, for most of the gold imported into India and all the gold produced in the Indian mines finds its way to Bombay. We have indeed had under our consideration the question whether the Calcutta Mint might not be abolished, but we prefer to reserve our decision until we ascertain whether the Bombay Mint, if declared a Branch of the Royal Mint, can conveniently execute the coinage of rupees, and whether in that case this Mint will be equal to all requirements as regards the coinage of gold, silver (including the British dollar) and copper.

6. We are aware that an opinion is entertained in certain quarters that it would be expedient to defer the legislation required to make the sovereign

legal tender in India, because when gold coins become legal tender they may accumulate in our reserve less rapidly than when the rupee is the only legal tender. It is possible that when sovereigns are made legal tender they may be held by the Banks in their reserves or may pass into circulation to some extent instead of going into our reserve. But admitting this to be possible, we do not believe that it will occur to an extent sufficient to make an appreciable difference in the rapidity with which sovereigns will find their way into our reserve. Such sovereigns as may be retained by the Banks in reserve will be available for foreign remittance when exchange tends to decline and will *pro tanto* diminish resort for that purpose to the Government reserve. But whenever exchange rises above the rate of 1*s.* 4*d.*, as it may be expected to do during every busy season, sovereigns, whether held by the Banks or passed into general circulation, except such as may find their way into hoards, should be presented to us by their holders for the profit to be made on their exchange for rupees. We consider, therefore, that when, after long consideration and discussion, it has been finally decided to make gold legal tender, and the rate has been settled, it would be inexpedient to delay giving effect to the decision.

7. We entirely agree with Your Lordship in accepting the recommendation made by the majority of the Committee that the rate of exchange to be adopted in making gold legal tender should be 1*s* 4*d.* the rupee. On this point the arguments of the majority carry to our minds infinitely more weight than the arguments in favour of a rate of 1*s.* 3*d.*, which are indeed mainly based upon a comparison between the statistics of a fairly good year and two exceptionally bad years. To adopt any other rate at this moment than that to which prices and other conditions have been adjusted during the last twenty months would be an unnecessary disturbance of existing conditions, especially when we reflect that such disturbance must of necessity have for immediate effect a very large addition (over Rx. 1,500,000) to the number of rupees required to discharge our sterling obligations. Finally, if the lower rate were adopted, we do not believe that it would be steadily established in a short time: on the contrary, such a backward step would promote a sense of uncertainty and hesitation and there would be a revival of speculation in exchange based on the probability that the lowering of a rate which, if not originally intended to be final, has at any rate established itself as final in popular opinion, would sooner or later be followed by further changes. We are confident that it is not more difficult to secure permanent stability at the rate of 1*s.* 4*d.* than at any other rate.

8. We note with great satisfaction that the Committee and Your Lordship are agreed that we should not accept any legal obligation to give gold in exchange for rupees. To undertake such an obligation at this stage would involve borrowing an indefinite amount of gold for the purpose of convertibility and to such a course there are the strongest and most obvious objections. Moreover, a stock of gold acquired for this object would be watched with excessive anxiety, and any shrinkage in its amount would be likely to foster apprehension if not panic. At the same time we hasten to add that we must aim at the attainment, with the least avoidable delay, of practical convertibility, such as exists in France.

9. We also concur in the determination that the rupee shall remain full legal tender as at present. It is not likely that gold will ever penetrate freely into the country, or be used except in the larger centres and to some extent along the railways, since gold coins represent too great a value for ordinary transactions, which will in the main continue to be carried out by the

use of silver. Gold in our opinion will remain a marginal currency. Any restriction on the use as legal tender of the rupee would, moreover, be an unnecessary and arbitrary interference with the habits of the native population. The closing of the Mints, essential as that measure was, has had a certain depressing effect upon that metal which forms the favourite investment of the savings of the people; and any semblance of hostility to silver should, in our opinion, be rigorously avoided. We do not anticipate any more inconvenience under such conditions than has been felt in France from the maintenance of the full legal tender value of a mass of silver currency which is probably at least equal to the dimensions of our rupee currency.

10. The question of making our gold reserve freely available for foreign remittance is one in which the Indian business community is keenly interested. It is a question that touches them more nearly than any other connected with the currency, and hence it is that they have given such a large measure of approval to proposals for establishing a fund to be specially kept available for foreign remittances. But, though we could not consent to such proposals, we have the strongest opinion that our gold reserve should be available for foreign remittances, and that the natural and proper function of gold, when the standard is established, will be to flow in and out of the country in response to the seasonal demands of trade and so to impart elasticity to our currency. After the gold standard has been firmly established, the inflow and outflow of gold will be automatic; but at the beginning of the new system the particular manner in which the gold reserve may be drawn upon for the purpose of securing stability in exchange must be considered and determined in the light of circumstances as they may arise. Probably for some time to come the only method to be employed will be to remit gold to Your Lordship when exchange shows a tendency to fall below specie point, and to reduce the drawing of Council bills by an equivalent sum. We may also proceed in time to discharge obligations in gold, or to pay certain classes of currency notes in gold, and gold so paid would reach the Banks and be made available for foreign remittance.

11. The question discussed in the preceding paragraph leads to the consideration of the opinion given by three members of the Committee against sterling borrowing for currency purposes. As we have already said, we are absolutely opposed to borrowing for the purpose of securing convertibility, and we are also opposed to any immediate borrowing in order to accumulate a stock of gold for the purpose of maintaining exchange. But our reasons in the two cases are different. We refuse to borrow to ensure convertibility because of the risk involved, and we prefer to adopt the sounder and safer course, which has been adopted by other countries, of proceeding by gradual steps to convertibility. We equally deprecate any immediate borrowing for the purpose of maintaining exchange; such borrowing may never become necessary, and would, in that case, impose an unjustifiable charge for interest on the taxpayer. At the same time, the increase of our gold obligations would tend to retard the success of our currency policy and in this connexion we may note that we concur with the Committee in deprecating the increase of our general sterling obligations. But we cannot conceal from ourselves that if India were afflicted with famine or other adverse circumstances in the earlier years of our new currency, and before an adequate reserve had accumulated, circumstances might arise in which borrowing to maintain the standard would become an absolute necessity. We should have preferred, as we have informed Your Lordship by telegram, to have been armed against such a contingency which can never be left out of calculation

by an Indian Government, not by actual borrowing but by obtaining power to borrow. The possession of such powers, in our opinion, would go far to render any exercise of them unnecessary owing to the public confidence which their existence would inspire. Such powers might have been taken for a limited period and for a definite amount, and would have been exercised exclusively, if ever necessity arose for exercising them, for the single purpose of maintaining stability in exchange. We further hoped that it might have been found possible to take such powers in conjunction with Her Majesty's Government. An association of the two Governments for so limited and specific a purpose would not have impaired the financial independence of India, and we cannot conceive that the Imperial Government would have been reluctant to give India the use of the Imperial credit for such an object. We have learnt with satisfaction since we urged these considerations that Your Lordship has stated in the House of Commons, in the debate on the Indian budget, that borrowing would be resorted to if it should prove to be necessary. But we think it right to explain fully the reasons which led us to urge our views upon Your Lordship, and we believe that, had the course we advocated proved practicable, our new currency policy would have, at any rate in this country, commanded more immediate assent and confidence.

12. It only remains for us to discuss Mr. Hambro's proposal for the establishment of a strong Bank. There can, we think, be no question that, for the purpose of the effective maintenance of the gold standard, a Bank with a large sterling capital, and constituted on the model of the Bank of England or Bank of France, would be a very powerful support to the State. Such a Bank would be better able to measure and deal with the requirements of trade for foreign remittances than any Government, and it would have the capacity, which a Government Department cannot be expected to possess, of preventing unnecessary export of gold without hampering trade. An institution of the kind would also be most effective in promoting the circulation of gold. It would, again, be an effective agent for securing an increased circulation of fiduciary money; and we might find it possible to entrust it with the management of the Government Paper Currency. Apart altogether, however, from the question of the gold standard, we consider that the constitution of such a Bank is desirable. The three Presidency Banks do not command separately or together a capital adequate to the commercial requirements of the country or sufficient to prevent excessive fluctuations in the rates of discount at different seasons of the year; while the legislative restrictions under which they conduct their business and the sharp division of their respective spheres of influence, however necessary or expedient at a former period, now form an obstacle to business. The Presidency Banks, however, have in the past done good service and the Government owe them full consideration apart from any actual contract or legal obligations. We think, therefore, that in the first instance the attempt should be made to absorb the three existing Banks in one strong establishment, constituted on a sterling basis, care being taken that the interests of holders of shares in the Banks should be fully protected and secured. The whole question is one that will require careful consideration, and we propose to address Your Lordship again on the subject after ascertaining the views of the Banks and of the mercantile community.

G. I. C. P. O.—No. 868 F. & C. D.—9-9-99.—50.—H. C. & G. R.