A MEMORANDUM ON

THE INDIAN CURRENCY.

GOLD FOR INDIA

A PLEA FOR THE ADOPTION

OF

THE INDIAN CURRENCY COMMITTEE'S REPORT

OF 1899,

BY

M. DE P. WEBB, C. I. E.

(*Chairman, Karachi Chamber of Commerce*).

(*Additional Member of the Bombay Legislative Council*).

AUTHOR OF

"INDIA AND THE EMPIRE", "THE GREAT POWER", "BRITISH COMMERCE", "MONETARY PROGRESS IN THE VICTORIAN ERA", "A MEMORANDUM ON THE INDIAN CURRENCY", "PRICES AND PROSPERITY", "THE RUPEE PROBLEM" &c.

"*Money is perhaps the mightiest engine to which man can lend an intelligent guidance. Unheard, unfelt, unseen, it has the power to so distribute the burdens, gratifications and opportunities of life, that each individual shall enjoy that share of them to which his merits or good fortune may fairly entitle him; or, contrariwise, to dispense them with so partial a hand as to violate every principle of justice, and perpetuate a succession of social slaveries to the end of time.*"—ALEXANDER DEL MAR.

PRICE RS. 2, (INDIA); OR 2*s.* 6*d.*, (ENGLAND).

Karachi:

THE "MERCANTILE" STEAM PRESS,

1911.

GOLD FOR INDIA.

A PLEA FOR THE ADOPTION OF THE INDIAN CURRENCY COMMITTEE'S REPORT.

1. Twelve years having elapsed since the Indian Currency Committee (over which Sir Henry Fowler presided), recommended the Secretary of State for India to give this Dependency a gold currency as well as a gold standard, the time is now ripe for enquiring how far this policy has been carried out, and what further steps, if any, are necessary to complete the all-important mechanism of India's gold-standard monetary system.

2. The main points of the Indian Currency Committee's recommendations can be summarised as follows :—

(a) That whilst Government should continue to give rupees for gold, if required, no fresh rupees should be coined until the proportion of gold in the currency was found to exceed the requirements of the public. (*Vide* Section 60).

(b) That the Indian Mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian Branches of the Royal Mint. (*Vide* Section 54).

(c) That the British sovereign should be made a legal tender and a current coin in India at the rate of 1s 4d per rupee. (*Vide* Sections 54 and 66).

(d) That when the Government of India had accumulated a sufficient gold reserve, and so long as gold was available in its Treasuries, it might discharge its obligations in India in gold. (*Vide* Section 59).

(e) That any profit made on the coinage of rupees should not be credited to the revenue or held as portion of the ordinary balance of the Government of India, but should be kept in gold as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary Treasury Balances. (*Vide* Section 60).

(f) That with the object of speedily attaining the effective establishment of a gold standard and currency as above, the Government of India should husband its resources, exercise a resolute economy and restrict the growth of its gold obligations. (*Vide* Section 70).

3. The above recommendations were made over the signatures of Mr. E. A. Hambro, Mr. Robert Campbell, Mr. F. C. Le Marchant, Sir William Holland, Sir Alfred Dent, Sir Charles Crosthwaite, Sir Francis Mowatt, Sir John Muir, Sir David Barbour, Lord Balfour of Burleigh and Sir Henry Fowler,—all men very well qualified to give sound advice on this most important subject.

4. And how was the advice received? What steps were taken to give effect to the Indian Currency Committee's recommendations? At the time of their receipt, they were undoubtedly warmly welcomed by the Government of India who at once prepared to put them into execution. From certain

sections of the commercial community in India, however, Government were subjected to considerable pressure to defer taking action. It was contended that in making the sovereign legal tender, Government abandoned the advantages which the monopoly position of the rupee gave for attracting gold: that the moment the sovereign was legal tender, it would be absorbed,—would disappear like rain into the sea, etc., so that the gradual accumulation of gold would be arrested, and that Government would be driven into borrowing for its stock of gold. Fortunately, Government was not deterred by these representations. On the 15th September, 1899, gold was made legal tender in India, whilst a few months later, in March, 1900, Sir Clinton Dawkins announced—"It has been decided to constitute a Branch of the "Royal Mint for the coinage of gold. The terms of the proclamation to be "issued under the Imperial Coinage Act have been settled, and we are now "merely awaiting until the Royal Mint has satisfied itself as regards the Mint "premises and appliances at Bombay. . . The gold from the Mysore mines "is, indeed, already reaching us in anticipation of coinage, and we count upon "receiving an annual increment to our stock of gold of from one-and-a-half to "two millions from this source."

5. Be the reason what it may, the proclamation above referred to, has never been issued. Nor has Government ever vouchsafed any explanation of this most extraordinary omission. To this day, India, a gold producing country, and the richest and most powerful division of the Empire after Great Britain, still lacks its Mint for the free coinage of gold. This is all the more remarkable because an open Mint, accessible to the public for the ready conversion of precious metal into legal tender money, is the one central, vital pivot of every currency system, without which a country's monetary arrangements can hardly be termed a "system" at all.

6. Whilst the Government of India showed no hesitation in taking the initial steps necessary for the establishment of a gold currency in India, its subsequent actions have appeared to be singularly lacking in steadfastness of purpose. Thus, Sir Henry Fowler's Committee suggested that as soon as Government had accumulated sufficient gold, it might commence discharging its obligations in India in gold instead of in rupees,—an excellent and thoroughly practicable suggestion. Finding that gold was accumulating in its Paper Currency Reserves far more rapidly than it had anticipated, Government proceeded not only to act upon this suggestion, but to go beyond it. Attempts were made to put gold into the hands of a conservative Indian public at certain Post Offices: to pay out large sums in gold (without due warning) in the encashment of currency notes remitted up-country for trade purposes by European firms: and so on. This at once aroused opposition and protest, as might have been expected. But with a most unfortunate result. Government apparently abandoned all hope of putting gold into active circulation for the time being, and, in its stead, proceeded to enter upon an astounding silver coining policy calculated seriously to jeopardise, if not wholly to wreck the entire gold currency scheme. Notwithstanding the repeated protests of successive Finance Ministers that the banking and trading communities in India ought to rely far more on their own efforts, and far less upon Government, to finance the commerce of the country, the Secretary of State so far permitted himself to lapse from a sound official attitude as to accept and act

upon the novel theory that any man who presented gold to the India Office in London and demanded rupees in exchange therefore in Calcutta, Bombay or Madras, was fully entitled to receive those rupees, in unlimited quantities, and exactly as they were wanted! In other words, in addition to his other innumerable functions, it became the Secretary of State's duty to finance the whole trade of India, and at a moment's notice. Not in the way that the Secretary of State desired, or the Committee of Experts who had sat specially to advise him, recommended: but in such way as the Banks and Mercantile Houses, responding to the requirements of some of the larger European trading interests, found most convenient for their own ends, at that particular moment, to finance some particular crop. It would be interesting to hear the reply of the High Commissioner for Canada, or of the High Commissioner for Australia to a similar, sudden demand to place by telegram the Mints and cash balances of their respective Governments at the service of the Candian or Australian bankers! Yet, marvellous as it may seem, this preposterous idea prevailed; and so, notwithstanding the brave words of Sir Clinton Dawkins in 1900*, millions after millions sterling worth of new silver were purchased and coined, till a climax was reached in the years 1905-1907 when no less than £ 42,000,000 worth of new rupees were launched upon the Indian public—**far and away the heaviest coinage of silver ever known in the history of the world.** And by a Government committed to the establishment of a gold currency, too!

7. Nemesis however, very quickly overtook the Government of India and its new financial guides. Not only was the rise in prices then in progress throughout the Western world, perceptibly stimulated in India, (to the immeasurable suffering of the lowest classes, Government itself being forced to make 'grain compensation allowances' on a gigantic scale to its poorest servants), but the check to trade arising out of the crop shortages in India and the financial crisis in the United States in 1907, all but wrecked India's labouriously constructed 1*s*. 4*d*. rupee,—the redundancy in silver money being only relieved by a tardy transfer (through Government agency) of the equivalent of over £ 8,000,000 from the cash balances of the peoples of India back to the money markets of Europe.

8. Unfortunately, it is not only in (*a*) the manufacture of new rupees on an unprecedentedly large scale, (*b*) the omission gradually and persistently to introduce gold coins into circulation, and (*c*) the failure to establish an open Mint in India for the free coinage of gold, that Government have ignored the specific recommendations of the Indian Currency Committee. In utilising over a million sterling of the Gold Standard Reserve on railway construction,—in adulterating that Reserve with silver,—in acquiescing in the transfer of the major portion of the Gold Standard Reserve and a substantial part of the Paper Currency Reserve from India to London, (with its subsequent evaporation in the form of loans to "approved banks" and investment in "gilt-edged" securities),—and lastly, in submitting to the Secretary of State's extraordinary and excessive drafts on the Indian Treasuries, the Government of India have accepted and assisted in the carrying out of a currency policy diametrically

* "India has at length emerged from a period of transition in her currency,—has reached the goal to "which she has been struggling for years,—has established a gold standard and a gold currency."—Sir Clinton Dawkins in his Budget Statement, March, 1900.

opposed in all essential details to that which Sir Henry Fowler and his Committee of Experts, after a year's careful investigation, deliberately recommended.

9. If once again we closely analyse the Indian Currency Committee's advice, we shall recognise that its main feature is a recommendation to make gold the chief monetary instrument of India, not only the standard for adjusting international indebtedness, but *the currency medium by aid of which the larger traders and more wealthy members of the community could transact their business and satisfy their current requirements.* When a Committee of prominent Financiers, Bankers, Merchants, Officials and retired Members of the Government of India are unanimous in a recommendation of this character, it can only be assumed that they are thoroughly satisfied

(*a*) That many people in India like, and will use, coins of gold.

(*b*) That as a chief monetary instrument gold coins are better than silver coins, or than any other form of metallic currency.

(*c*) That the Open-Mint, Gold Monetary Systems of Europe and America are the best possible models upon which to frame India's currency system.

(*d*) That there is sufficient gold available in the world to permit of India establishing a gold currency as well as a gold standard.

The accuracy of these monetary axioms being beyond question, it follows that recommendations based upon them are in all probability well founded. As a matter of fact there are few who would deny that the Indian Currency Committee's recommendations are as sound now as they were in July, 1899 when the Committee first subscribed to them.

10. If, now, we turn to the various steps taken by the Secretary of State and the Government of India subsequent to the publication of the Committee's Report, and carefully examine the practical outcome of the various moves, we shall quickly discover that they have all had one and the same result. Thus :—

(*a*) The failure to establish an open Mint in India for the free coinage of gold has meant that the gold unearthed in India during the last 18 years,—say, £ 32,000,000,—could not be converted into legal tender money in this country. Therefore much of this gold has had to be sent elsewhere. In short, *India has lost the gold, qua gold.*

(*b*) The abandonment of the policy of putting gold into circulation by discharging some of Government's obligation in India in gold, and so familiarising the people with the advantages of gold money, has meant the neglect of the best possible means of expanding the people's taste for gold. Thus, India's demand for the precious metal has been of comparatively slow growth, and *India has lost by not importing as much gold as she would, had the people been encouraged to use gold more freely.*

(c) The purchase and manufacture, subsequent to the closing of the Indian Mints to silver, of the largest quantity of silver ever coined in any three years in the history of India, effectually checked the importation of gold to a more or less similar amount. Thus, not only were the peoples of India actively encouraged to continue using the depreciating white metal rather than the more valuable yellow metal, but *India was at the same time left the poorer in gold by over £ 50,000,000.*

(d) By deciding not to hold the profits on their extraordinary silver coinages in India in gold, as recommended, Government have themselves avoided the necessity of importing into India £19 or £20 millions in gold. Not only this. By transferring some £18,000,000, of the Gold Standard Reserve to London, Government have for the time being reduced the balance of trade in India's favour by this amount, and so *intercepted £ 18 millions which India might,—indeed, should—have received in gold.*

(e) So, too, by transferring over £6,000,000 of India's Paper Currency Reserve (a currency that only circulates in, and is only redeemable in India), from the Indian Treasuries to the Secretary of State's Treasury in London, Government have again intercepted the balance of trade in India's favour, thus *depriving India of a further £ 6,000,000 in gold.*

(f) And lastly, by transferring week after week large sums of money, far in excess of his legitimate requirements, from the cash balances in the Indian Treasuries to the swollen cash balance of his London Treasury, the Secretary of State has gravely interferred with the normal adjustment of the balance of trade in India's favour, and has effectively *checked and reduced the natural flow of gold to India.*

11. Thus it will be seen that whilst the Indian Currency Committee, after a most careful consideration of the whole position, deliberately recommended the adoption of gold for India, the Secretary of State and the Government of India have, with a similar unanimity of action, so conducted their management of the currency as to check, delay, and intercept in every possible way, the normal accumulation and flow of gold, in and to, this gold-producing Dependency.

12. In fairness to the Government of India, it must be stated that, with one exception,—the failure to establish in this country a Mint open to the free coinage of gold,—every move in this unfortunate business of State-currency-management has been the subject of frequent discussion and explanation. Successive Finance Ministers have expounded, sometimes at considerable length, their reasons for introducing silver into the Gold Standard Reserve, for transferring the Reserve to London, for investing the Reserve in British and Colonial Securities, and so on. In no single instance, however, have the explanations given exhibited any practical recognition of the policy and fundamental principles to which Government have throughout been committed,

namely, the active establishment in India of a gold standard **with a gold currency**, on the same lines as the gold standard systems of the United Kingdom, of the British Self-Governing Colonies, and of the rest of the civilised world.

13. But, it may be asked, why should the Government of India desire to prevent the peoples of this country from retaining or importing whatever gold they please? There is, in truth no reason why the Government of India should so stultify itself, beyond the all-compelling one that it is, by its constitution, forced to act, not as its Finance Ministers sometimes tell us that it has decided to act *, but rather in accordance with the instructions of a Secretary of State who, seated on the other side of world amidst an altogether different environment, at times takes an different view of the needs of the situation in India to that held by the Heads of Government on the spot.

14. But still, it will be pressed, why should the Secretary of State for India desire to with-hold from the Dependency in his charge the very gold which the physicians in consultation have unanimously prescribed as the one and only remedy for India's currency troubles? It is incredible that the Secretary of State could, of set purpose, have deliberately conceived and methodically carried out so vicious a policy. And yet the fact remains that the practical upshot of Government's management of the Indian Currency, has been,—as already explained,—a continuous check to India in the acquisition of that precious metal upon the possession of large quantities of which, her currency salvation immediately depended. What is the explanation of this paradox?

15. The explanation is to be found in the fact that the raising of the Indian monetary system to the level and standard of the currency systems of the United Kingdom and of the other great nations of the world, has involved a risk of certain temporary inconveniences to powerful sections of the trading and money-lending communities. And with the result, that in his effort to satisfy the demands of all who have dealings with him, (more particularly of the London Money Market), the Secretary of State has ended by abandoning, in effect, the first principles that should have guided him in his evolution of India's new gold monetary system.

16. Amongst a public largely illiterate, it was to be expected that the introduction of a strange gold coin of so high a value as fifteen rupees would at first be regarded with a certain suspicion. Unfortunately some of the better educated Anglo-Indian community exhibited a similar distrust of the inflowing sovereigns, not, of course, in connection with the meaning or value of these excellent coins, but with regard to their suitability to the requirements of the internal trade of India. In this way, it happened that what with suspicion on the one hand, and inertia—som-times active opposition—on the other, the Government of India found reasons,—poor ones it is true, but still, reasons,—for abating their activities in putting gold into circulation.

17. As to the motives which prompted the Secretary of State to veto the Government of India's decision to establish in Bombay an open Mint for the free coinage of gold, an explanation will probably be found in the Secretary of State's financial environment in the City of London. Obviously, the gold

* *Vide* the conclusion of paragraph 4, above.

mining interests of India would not be likely to object to the creation of machinery which would save them the cost of shipping their gold to Europe for conversion into legal tender money. Who, then, would object? The bullion dealers and gold money-merchants of London are the only interests likely to lose a little by the establishment of an open Mint in Bombay. Is it possible that the Secretary of State has been influenced by their representations? In this connection one significant fact may be noticed. It was a firm of London bullion dealers,—Messrs. Samuel Montagu & Co.—who recently gave publicity to the outrageous suggestion that the Government of India should impose a duty on all gold imported into India,—a duty of a kind, be it noted, that has never been levied by any Government since the world began. Why should a *ballon d'essai* of this character be floated from such a quarter?

18. It happens that the headquarters of the Secretary of State are also the headquarters of the most amazing organisation of banking, money-lending, and credit-spinning that the world has ever known. Thanks to the energy, enterprise and spotless integrity of successive generations of money-merchants, aided by a Government which, *facile princeps* in honesty of purpose and fair dealing to all, has combined the maximum political security with the widest recognition of the liberty of the subject, the City of London is still the greatest Money Market in the world. Every nation keeps a banking account in London. Every nation comes to London for capital. Every nation turns to London for advice and guidance in matters monetary: whilst all nations regards its doings with envy and admiration. And not without reason. For, marvellous to relate, London, with probably the greatest volume of local and international monetary transactions of any city in Europe or America, nevertheless manages to conduct its huge financial business with the smallest reserves of gold held by any great country in the world!

19. It is perhaps not surprising that the Secretary of State, guided by a Finance Committee who sit amidst an environment of joint-stock and other banking interests, constantly imbibing the financial atmosphere of the London Money Market, should insensibly develop the same attitude of mind towards India's currency problem as that held by some of the working financiers, money-merchants, and bullion dealers of the great City. To such, the transmission of gold to the central gold market of the world, there to be dealt with in the most economical manner possible by those specially conversant with such business, doubtless presents many advantages over the establishment in India of a Government factory at which, on the demand of the public, gold could be received, assayed, and converted into legal tender money entirely free of charge. And so, India still lacks her open Mint. But, note how one false step leads to another. In the absence of an open Mint, (such as every other civilised country possesses), some provision must be made for supplying the public with such metallic money as may be demanded. The Secretary of State accordingly (1) declared British sovereigns legal tender in India: but at the same time largely (2) nullified the object of his currency policy by undertaking to produce on demand, in exchange for gold, whatever silver tokens the public might ask for. No Government in the world—ancient or modern—has ever dreamt of performing such a duty as this latter, yet the Secretary of State cheerfully shouldered the burden and,—became one of the chief money-lenders and silver purchasers in the City of London.

20. This, however, was only one of many notable doings of the Secretary of State in connection with the Indian currency. The essence of modern finance and banking being the accumulation and supplying of money on terms profitable to all concerned, it is not surprising that an Official who lends and borrows millions of State money without the slightest check or control of any kind, should be the object of much friendly attention on the part of the London Money Market. In such circumstances, what more natural than that the loss of interest consequent upon the holding of large stocks of coin in the Gold Standard and Paper Currency Reserves should be pressed upon his attention. Why keep these Reserves in India? Why not transfer some of the money to London and invest it in first class British and Colonial Securities? Although, in the case of India's Gold Reserve, the suggestion was on a par with the advice tendered to a man who, possessing a fire-engine to safeguard his country house, is persuaded to hire the machine to a friend in town in order to reap the benefit of the income so obtained, the Secretary of State nevertheless considered the transaction a good one for India, and now practically the whole of the Gold Standard Reserve and a substantial portion of the Paper Currency Reserve is so invested that in a time of grave national danger, the objects of the Reserves would probably be very seriously impaired. And it is not only these Reserves that have been treated in this way. The Secretary of State has recently laid hands on the cash balances in the Indian Treasuries, transferred them also to London; and, having no legitimate need for all this money, has invested some portions and lent others to 'approved' banks and finance houses. Where the Secretary of State's financial activities are now likely to end, it is impossible to conjecture.

21. In the meantime, whilst the India office has been indulging in these alarming excursions into the realms of high finance, the feeling has been growing, not only in England but also on the continents of Europe and America, that a very grave danger lies concealed in the extraordinarily small gold reserves of the London Money Market. Nobody possesses any exact knowledge as to the metallic reserves regularly held at the present day by the various banks in Great Britain, but the gold reserve of the Bank of England upon which the whole country, in the main, depends, has for long been recognised as seriously inadequate in comparison with the current liabilities of the banks of the United Kingdom. The leading economists of the day warned the Kingdom of the pitfalls of the situation over thirty years ago. Since then, publicists, merchants, bankers, journalists, statesmen of various political creeds, at Home and Abroad, have all recognised and dwelt upon the dangers to Great Britain and to the whole British Empire of balancing so stupendous a structure of world-wide credits upon a metallic basis so perilously small. The danger is not so much from economic possibilities (though panics and financial crises which have happened before, will no doubt happen again), as from grave political troubles arising out of national aggressions and international deadlocks. A great European war is by no means outside the realms of the possible. Occasional fighting is just as normal and congenial to average human nature as occasionally presenting the smitten cheek to the smiter. And it is well that it is so, or we should quickly degenerate into beings of a fibre so poor that the first vigorous nation who battered at our doors, would suppress us. Quite rightly, then, do we recognise the fact and expend seventy millions a year on naval

and military preparation. Moreover, if we may judge by the temper with which the recent universal peace proposals were received by the greatest military power in Europe, we shall have to continue building "Dreadnoughts" even more liberally in the future than we have in the past. All of which is quite natural and to be expected. Unfortunately, although financial preparation for war is as much a vital necessity as the building up and perfecting of fighting material,—human and mechanical, this factor in our imperial defence problem is one that our politicians persistently ignore. Taking a leaf from the monetary policy of the Bankers and Merchants of the City of London (who, it may well be presumed, know their own business best), the British Government maintains no gold reserves at all of any kind, for any purposes,—not even for its Trustee and Post Office Savings Banks' business (liabilities over £ 250,000,000), nor for its naval and military machinery upon which the security of the whole Empire depends. Indeed, Government never has sufficient ready cash at its bankers to conduct its own work of administration; and it only manages to carry on from day to day by a succession of overdrafts and temporary borrowings. The British Chancellor of the Exchequer's current 'I. O. U's. at the present moment amount to over £ 13,000,000.

22. It may be well at this point to put on record, first, what the Gold Reserve of the Bank of England actually stands at (as compared with the gold reserves of some of the other nations, great and small); and secondly, some of the opinions expressed by experts regarding the magnitude of England's reserve. The following figures represent the reserves of gold held in the Treasuries and National Banks of some of the chief countries in the world on the 31st December last:—

The United States	£ 263,241,000.
France	131,177,000.
Russia	130,476,000.
Austria...	55,023,000.
Italy	48,363,000.
Argentina	37,033,000.
Germany	33,052,000.
Australasia	31,820,000.
England	31,356,000.

To-day, the Bank of England's stock of gold is approximately £ 40,000,000 and Continental stocks of the precious metal are also somewhat higher. Whilst the Bank of England's figure affords an astonishing testimony to the confidence which the public feel in the integrity of London's great bankers and the ability of the British Government to defend the nation's interests and maintain peace, it at the same time gives rise to grave misgivings in the minds of all who recognise the magnitude of the disaster which might follow any serious loss of confidence or violent destruction of credit. We cannot forget that on more than one occasion in recent years England has been assisted over what would probably have developed into a serious financial crisis by the good will of the Bank of France who have shipped a few millions sterling in gold to London and so saved the situation. Our Continental friends may not always be able to be so accommodating. What would happen if, instead of helping us, they were to remain neutral? Or to turn actively hostile?

23. When, in the early years of the last century, Napoleon endeavoured to overthrow British power, one of the means that he employed, was a subtle attempt to drain Great Britain of its stock of bullion. Regarding our valuable credit structures of those old days as dangerously over-developed, Napoleon decided to attack this vulnerable point in every possible way: hence, among other measures, the Berlin and Milan Decrees. That his schemes eventually failed was not so much due to any flaw in his premises as to the innumerable difficulties experienced in the carrying out of the measures that he devised for our discomfort. With a credit development of immeasurably greater proportions and far more delicate and sensitive to international activities* than anything that Napoleon ever imagined, is not Great Britian, with the smallest gold reserve of any first class Power in the world, now running a considerable risk?

24. Every authority without a single exception answers in the affirmative. At the recent Meeting of the Association of Chambers of Commerce of the United Kingdom, during the debate (14th March, 1911) on the question of the inadequacy of England's gold reserves, one of the speakers (Mr. J. Howell of Bristol) reminded the Meeting that

> ...'this is no new question. It has been discussed for 45 years, during which time 15 resolutions have been proposed by the Associated Chambers, three Memorials have been sent to Parliament and to two Chancellors of the Exchequer in succession'...'

In 1908 the Council of the London Chamber of Commerce appointed a very strong special Committee †

> ...to consider whether the Gold Reserves of the country are sufficient, and, if not, what remedies can be suggested'.

After a year's deliberation, the Committee issued its report. The Committee were unanimous in recognising the

> ...'desirability of strengthening the Gold Reserves of this country'

and a majority made certain specific recommendations with the object of improving the situation. These recommendations are still the subject of discussion amongst the interests concerned. In the meantime, the Association of Chambers of Commerce of the United Kingdom at the Meeting referred to above, unanimously passed the following resolution:—

> 'That the Association re-affirms the Resolution with reference to the Gold Reserves passed in March, 1906 in the following terms:—
>
> 'That the recognised and constant insufficiency of the Gold Reserve of the United Kingdom requires the immediate attention of the Government'

---

* In this connection, it may be mentioned that in 1910 there were 28 Foreign banks in London with 1427 branches abroad, and £ 430,000,000 of public deposits.

All those banks could, at will, draw for substantial sums on the Bank of England.

† The Committee consisted of the Right Hon. Lord Avebury (Robarts Lubbock & Co.,) Mr. F. Faithfull Begg, Mr. I. Hamilton Benn, Mr. H. W. Birks, Lord Blyth, Mr. Charles Charleton, Mr. James Dixon (Chairman, Lloyd's Register), Mr. F. S. E. Drury (Peek Bros. & Winch), Sir J. Fortescue Flannery, Bart., Mr. Howard Gwyther (late Chairman of the Chartered Bank of India, Australia and China.), Mr. Alderman Hanson, Sir E. H. Holden, Bart, M. P., (London, City & Midland Bank), Sir Edward Law, Mr. R. A. Patterson Mr. J. Spencer Phillips (Lloyds Bank), Mr. J. A. Pixley (Pixley & Abel), Mr. J. Innes Rogers, Sir Felix Schuster, Bart., Mr. A Serena (Galbraith Pembroke & Co.), Mr. Nathaniel Spens, Sir Albert Spicer Bart., M. P., Mr. J. Herbert Tritton (Barclay & Company) Mr. A. J. Waley, Mr. Stanley Machin, Sir Robert Giffen, K. C. B., the Hon. Herbert C. Gibbs (Antony Gibbs & Sons), and Mr. Lawrence Currie (Glyn, Mills, Currie & Co.).

Not that Government had not already taken cognisance of the dangers of the situation. Thus, Mr. Asquith, when Chancellor of the Exchequer, at a Bankers' dinner in July 1906, said that this question of the Gold Reserve was

> ...'a matter of grave and increasing importance, and it was at that moment engaging his most serious attention"...

The late Lord Goschen followed at another Bankers' dinner in July, 1906,

> ...'Here we are, with enormous liabilities and with a smaller stock of gold than any other country holds...It is not a satisfactory situation'...

Yet in spite of this unanimity of opinion, nothing has actually been done. Mr. Edgar Crammond in Manchester last year, and again in London a few months ago*, has delivered powerful addresses on the subject of our 'Gold Reserves in Time of War', arguing and proving with a wealth of illustration, that in the event of a powerful enemy organising large withdrawals of gold from London at about the date that it had made preparations to attack us, we should unquestionably be very seriously embarrassed, if not reduced to financial chaos,—an argument in which the *Times*† admitted there was some weight. Professor Foxwell has recognised that it is by no means certain that we could get through a first rate war without an inconvertible currency. At an important discussion of this subject at the Royal United Service Institution in 1908, when an important paper by Sir Robert Giffen was under consideration,

> ...'several speakers expressed their conviction that a suspension of payments would be inevitable on the outbreak of a first-rate war; and Sir Felix Schuster said that we should certainly prohibit shipment of gold to the enemy,—(a course) which would involve a partial suspension (of cash payments).. ‡

25. It comes, then, to this :—That whilst the present gold reserve of the Bank of England is in practice adequate for current requirements *so long as the political sky at Home and Abroad is cloudless*, every expert is agreed that the margin of safety is dangerously small, and that the reserve ought to be at once strengthened. Seeing that an economic crisis (arising out of, say, excessive over-trading stimulated by a period of rising prices), is liable so seriously to denude Great Britain of its stock of gold as to necessitate help from Foreign Banks, most people are of opinion that the strengthening ought to take the form of a considerable increase in the reserve of precious metal held against emergencies: and further, that Government ought to contribute to the reform by accumulating its own political and commercial gold reserve (such as other nations possess) quite apart the reserve held by the Bank of England and some of the other great banks in the United Kingdom. And, lastly, whilst there are some who contend that the present slender state of Great Britain's gold reserve exposes the nation to very serious danger in the event of a great Power organising a sudden raid on our stock of gold for political ends, there are many experts of the highest standing who recognise that should Great Britain unfortunately become involved in war with a first class European Power, most of our gold reserve would probably disappear within the first twenty-four hours; cash payments would probably be suspended, and the nation be saddled with appalling financial losses—the result of the collapse of our top-heavy credit structure,—quite apart from the crushing weight of the ordinary war expenditure. And all the result of our unwise dependence upon a Gold Reserve that is on all hands admittedly inadequate.

* At the London Chamber of Commerce, on 13th March 1911, Mr. Stanley Machin, Chairman of the Council of the Chamber in the chair.

† March 14th, 1911, (Financial Supplement).

‡ *Vide* Professors Foxwell's Preface to Dr. Andreades' History of the Bank of England (English translation).

26. These facts explain the close attention with which every movement of specie and bullion in and out of the Bank of England is watched by the London Money Market, and, indeed, by all the money markets of the world. London being the central reservoir of fluid gold to which every nation first turns in moments of financial difficulty, the daily position of the Bank of England is a matter of world-wide interest. Gold can always be obtained in moderate quantities from the Bank of England *in times of peace.* So, too, the Bank of England can always attract gold from Europe and America *in times of peace* by the simple expedient of raising its rate of interest. The expedient is one which the whole commerce of England quickly feels in the higher rates it has to pay for the money that it is always borrowing. Still, taking into consideration the low cost of English, capital all the year round, commerce considers the game 'worth the candle'; and, the risk of international complications involving Great Britain in a European war being, in the opinion of most, a very remote one, commerce elects to regard the appalling ruin which the wholesale collapse of credit (consequent upon the outbreak of such a war) would cause, as a contingency similarly remote,—if not altogether negligible.

27. And yet the risk is there. Indeed, recent events have warned us that the danger is perhaps nearer than many people think. Hence the qualms which the London Money Market experiences whenever large sums are suddenly withdrawn from the Bank of England. Not that the removal of half a million or so to America or the Continent of Europe causes any alarm. The case is very different, however, if the demand come from India, the reason being that whereas movements of gold out of London to the other capitals of the West in adjustment of international indebtedness are generally followed by reverse movements of gold back to London in settlement of Europe and America's indebtedness to England, in the case of India the balance of trade is generally in her favour (and not by a small margin but by amounts that may occasionally rise to thirty, or forty, or even fifty millions sterling per annum); and gold that leaves London for India has very little chance of ever finding its way back again.

28. To a Money Market engaged in balancing the largest business in the world on the smallest basis of gold ever attempted, this possibility of India regularly withdrawing millions after millions of the precious metal from England's scanty stock, acts as a perpetual nightmare. By a process of reasoning not difficult to follow, London's Financiers have arrived at the conclusion that as Great Britain's monetary stability is a matter of far greater importance than the satisfaction of India's demand for gold, India's requirements in this direction must always be subordinated to the exigencies of the London Money Market. If India can obtain the gold she wants without directly drawing from London,—from Australia or from Egypt for example,—London is all the better pleased. If India must have gold from London, then the London Money Market will endeavour to meet the demand,—if it conveniently can. But there must be no wholesale removals in millions or tens of millions: that would be far too disturbing. India must always remember that the requirements of the London Market demand first consideration, and that the needs of the Indian public can only be thought about after the obligations of those responsible for the regular pulsation of the financial Heart of the Empire have been completely fulfilled.

29. Such are the seemingly not unreasonable principles which have guided the London Money Market in its handling of India's financial affairs. Nor can we feel any astonishment that the Finance Committee of the India Office and the Secretary of State should also have been influenced by such apparently sound considerations. In combination with other lines of reasoning to some of which allusion has already been made, they appear to afford good grounds for denying to India an open Mint for the free coinage of gold, for declining to encourage the peoples of India to make more use of gold, for transferring India's Gold Standard and Paper Currency Reserves to London, and generally, for employing every conceivable financial manœuvre,—even to the transfer of the Government of India's 'till money' from India to London,—in order to check as far as possible the export of gold from London to India.

30. That such has actually been the policy deliberately followed, is abundantly clear. Sir Guy Fleetwood Wilson during the course of the Debate upon the Indian Budget in March 1910 remarked

> ...'In all such matters it is useless to ignore the fact that opinion in England has to be considered. Personally, it is my earnest desire, as it is my intention, to approach Indian finance from an Indian standpoint, but I can conceive nothing more unfortunate than any attempt to separate the common interests of England and India, or any failure to recognise how dependent India is on the markets at Home'...

Mr. Meston in the same debate was even more explicit.

> ...'We must walk warily' he said, 'when there is any danger of disturbing the chief gold market of the world, or of creating or exaggerating any gold stringency which will react on Indian finance as surely as the day follows night'...

In the telegraphic columns of the *Times of India* of the 12th March 1910 appeared the following :—

> ...'It (*i. e.*, the *Times* of London) understands that the Indian Government are doing their utmost to check the movement of gold and are even offering the Indian Banks currency on the other side at sixteen pence against gold they can get in Egypt and Australia and bring here'...

This was followed a few days later by an obviously inspired reply :—

> ...'The statement that the Government are doing their utmost to check the movement of gold to India misrepresents the present financial situation... Needless to say the Government of India are always only too glad to see gold on its way to this country, and would never think of checking shipments, but they cannot control operations in London'...

This makes it very clear (1) that London is sometimes working in opposition to the views of the Government of India, and (2) that the London Money Market is at times engaged in operations specially designed to prevent India from receiving the gold that is her due.

31. The most illuminating light thrown upon this aspect of the problem, has been shed by the London financial organ—the *Statist.* In March last (when the gold manœuvreings just referred to were being engineered), the editorial columns of the *Statist* were occupied by a series of special articles ostensibly designed to prove that...'an exceedingly poor country like India'... would be ruined if it attempted to adopt Sir Vithaldass Thackersey's proposal for putting the Indian Currency Committee's recommendations into practice, and started coining distinctively Indian gold money. The *Statist* concluded its pseudo scientific analysis of the situation, however, by sublimely ignoring

the foundation of the whole of its own arguments, namely India's extreme poverty, and by solemnly reminding its readers that if India *did* decide to establish a gold currency,

> ...'it would be a very serious matter for the rest of the world. India last year took for trade purposes, for ornaments, and for hoarding, as nearly as can be estimated, about eighteen millions sterling in gold. If she is to continue that practice and is to add to it an immense accumulation of gold for coinage purposes, what will be the result upon the money markets of Europe and America? We grant that Indian Government is not bound to look after the interests of other countries. Still, the Indian Government draws its power from the United Kingdom, and unless the interest of India really requires it, the Indian Government should do nothing to injure the United Kingdom. But it would clearly injure the United Kingdom if the Indian Government were to adopt a policy which might mean the absorption by India for coinage, trade, ornaments, and hoarding purposes of gold to the amount of from fifty to possibly one hundred millions sterling a year'...(*The Statist* of 15th April, 1911).

32. Here we see the nightmare in its crudest form—poor, miserable, famine stricken India,—'one of the poorest portions of the whole earth' according to the *Statist*,—drawing to its bosom the magic gold in such fabulous quantities as to imperil the financial stability of the entire universe! Ridiculous as the fable is, it nevertheless trully reflects the fear that has for long haunted some of the most prominent brains of the London Money Market. It is in fact the root explanation of the Secretary of State's indirect subversion of the whole monetary policy recommended for this Dependency by the Indian Currency Committee of 1898.

33. One of the first enquiries that springs to the mind on having traced the problem of India's monetary troubles thus far, is—Why, if England's gold reserves are admittedly inadequate in comparison with the inverted pyramid of world-credits poised thereon, has the Secretary of State added to the tenderness of the structure by contributing £ 24,000,000 of India's Gold Standard and Paper Currency Reserves thereto? Why this financial piling of Pelion on Ossa? Why, indeed? Well may we ask. Our country friend whose fire engine had been lent on hire to a firm in town, could not find himself in a more embarrassing situation on the outbreak of fire in his most cherished country house, than the Secretary of State for India endeavouring, on a declaration of war against England having been made, to sell £ 10,000,000 or £ 15,000,000 of Irish Land Stock, Transvaal War Loans, British Consols, &c. in a money market paralysed by panic and probably reduced to a state of barter consequent upon the suspension of cash payments. At such a time every European Bank and Mercantile Firm in India would be endeavouring to strengthen its position at its head-quarters by remitting surplus funds Home. The Government of India would be forced to draw on the Secretary of State, probably for very large sums; and unless the India Office could instantly meet every demand made upon it, no matter how heavy, the loss of confidence would quickly bring the rupee down with a crash to its par value as silver,—probably not much above 7*d* or 8*d* in such a crisis. So that in addition to war troubles at Home, plus financial chaos consequent upon an inadequate gold reserve in London, the Empire would probably be called upon to bear the additional burden of a grave financial crisis in India wherein both public and Government would be severely damaged, many of the former being probably irretrievably ruined.

34. What can be done to safeguard the position? The Gold Reserves Committee of the London Chamber of Commerce already referred to, have made certain specific recommendations, namely :—

1. THAT the issues of the Bank of England against Government Debt and Securities, commonly called the Fiduciary Issue, form an undue proportion of the whole, and should be reduced.

2. THAT a reasonable reserve in gold should be held against the deposits in the Trustee and Post Office Savings Banks.

3. THAT the Bullion Department of the Bank of England affords a means by its enlargement for the aggregation of gold reserves held by others than the Government of India, viz. :—

(a) The Banks of the United Kingdom, including the Bank of England, in respect of such gold held against their liabilities in excess of till money as any of them may elect to deposit in the Bullion Department.

(b) Scotch and Irish Banks in respect of all or any portion of the extra gold held by them against excess issues under the Act of 1845.

(c) The National Debt Commissioners and the Postmaster-General in respect of the gold which the Committee recommend should be held against the liabilities of Trustee Savings Banks and Post Office Savings Banks respectively.

4. THAT all persons or companies carrying on the business of Banking within the United Kingdom should once in every calendar month, in case their liabilities on current and deposit accounts exceed in all the sum of ten million pounds sterling, and once in every three months in all other cases, make a statement of their position showing the average amounts of liabilities and assets on the basis of weekly balance sheets for the preceding month, or three preceding months, respectively, stating the following amounts separately :—

(a) Liabilities on current, deposit and other accounts.

(b) Liabilities on notes in circulation.

(c) Liabilities on bills accepted.

(d) Gold and other coin and gold bullion held.

(e) Bank of England notes held, and balance due by the Bank of England.

(f) Balance due by Clearing Agents.

and that a copy of the statement should be put up in a conspicuous place in every office or place where the business of the persons or Company is carried on.

5. THAT it is desirable that the Bank of England should make an annual return showing the aggregate bankers' balances for each week of the preceding year.

These recommendations, which involve additional burdens upon all interests immediately concerned,—*i. e.*, upon (a) Government, (b) the Bank of England and (c) the other Banks of United Kingdom,—would, if carried into practice, undoubtedly do much to improve the position. It is doubtful, however, whether the London Money Market can be brought to act simultaneously and with unanimity in a matter which involves sacrifices in many directions, without the assistance which legislation would afford. Whether a Government chronically under heavy obligations to this same money market, is likely to possess the courage to undertake such "assistance," seems open to doubt.

35. Fortunately, there is another and most effective means whereby the desired end can be attained,—a means beneficial alike to India as well as to England. It consists in the peoples of India pressing upon their Government and upon the Secretary of State the acceptance of the recommendations made by the Indian Currency Committee. It consists, in other words, in the opening

of the Indian Mints to gold, in the creation of a popular Indian gold currency, and in the retention in India *in gold* of the Reserves that ought never to have been taken out of the country. This policy might possibly involve the regular withdrawal of gold from London at the rate of half a million a week; but such acquisitions of gold would be good for India, and the withdrawals would also be for the good of London, little as the Money Market might appreciate the remedy. London might very possibly have to take special measures to attract gold to take the place of that regularly drawn off by India; but this fact would stimulate attention at Home to a state of affairs that has too long been neglected by the public. In the mean time, a second gold currency and a second gold reserve would be in course of formation within the Empire,—a monetary system that would not only permanently assure the purchasing power of India's rupee currency, but would at the same time prove a valuable source of Imperial strength in times of Imperial danger.

36. Is there enough gold available in the world to allow of such a policy being carried out? Suppose that India absorb not twenty, but thirty, or forty, or even fifty millions sterling a year in gold. What would happen then?

37. For the first half of the last century, the world's average annual production of gold was a little over £ 3,000,000. The figure gradually increased as the middle of the century approached. Then came the most wonderful discoveries ever known up to that time,—the gold-fields of California and Australia. The world's output for the years 1851 to 1860 was as under:—

1851	... £ 16,600,000	1856	... £ 29,520,000
1852	... 36,550,000	1857	... 26,650,000
1853	... 31,090,000	1858	... 24,930,000
1854	... 25,490,000	1859	... 24,970,000
1855	... 27,010,000	1860	... 23,850,000

Can we feel surprised that the whole world became delirious with excitement—people from all nations forsaking everything they possessed, and flocking in thousands to the gold-fields. And yet, what was the gold production of the 'fifties compared to that of the present day. Here are the figures for the last ten years:—

1901	... £ 53,544,000	1906	... £ 82,569,000
1902	... 60,869,000	1907	... 84,904,000
1903	... 66,650,000	1908	... 91,450,000
1904	... 70,688,000	1909	... 93,000,000
1905	... 76,675,000	1910	... 94,000,000

Nearly eight hundred millions sterling of new gold added to the world's stock in the last ten years. And still the stream expands!

38. Whilst there has been in recent years a continually increasing demand for gold partly owing to the general advance all over the world in population, prosperity and standards of living, and partly in consequence of nation after nation following England's example and abandoning silver as a chief monetary instrument in favour of the more suitable yellow metal, there have been effected at the same time in every Western nation astonishing

economies in the use of gold for monetary purposes by the development of banking, bills of exchange, cheques, monetary substitutes and credit spinning devices of all kinds. For these latter reasons far less gold than ever before is now required for the financing of a given volume of business. It follows that a perceptibly increasing effort must be involved in the finding of outlets for the phenomenal quantities of gold that are now annually flowing towards the great commercial and political centres of the world,—an effort of which we already see the first signs in the fact that gold is everywhere depreciating in value: in other words, prices, as measured in gold money, are everywhere rising.

39. It is interesting at this stage to note what has become of some of the new gold produced in recent years. The following figures of the gold holdings of some of the central banks of the world and of the Treasuries which act as central banks, tell an important story:—(The figures have been extracted from the *Statist* of 21st January, 1911.)

Country.	Stock of Gold held on		Increased Stock.
	31st Dec. 1900.	31st Dec. 1910.	
United States Treasury ...	£ 102,038,000	£ 233,437,000	£ 131,399,000
Russia: State Bank and Treasury	75,540,000	130,476,000	54,936,000
France	93,600,000	131,177,000	37,577,000
Argentina: Caja de Convers. ...	6,272,000	37,033,000	30,761,000
Italy: National Bank	12,008,000	38,060,000	26,052,000
Brazil: Caja de Convers. ...	Nil.	19,000,000	19,000,000
Austria	38,624,000	55,023,000	16,399,000
Japan	6,864,000	24,192,000	17,328,000
Germany	24,084,000	33,052,000	8,968,000
United States: National Banks.	21,512,000	29,804,000	8,292,000
Italy: Other Banks than Nat..	4,092,000	10,308,000	6,216,000
Holland	4,877,000	10,398,000	5,521,000
Belgium	2,843,000	8,252,000	5,409,000
Australasia	26,420,000	31,820,000	5,400,000
Roumania	1,592,000	4,756,000	3,164,000
Bank of England	28,541,000	31,356,000	2,815,000

Practically every nation, it will be seen, has retained more of the new gold than Great Britain.

40. The situation is now becoming quite clear. At the present day there is more gold available and in course of production than at any previous period in the history of the world. The London Money Market, however, relying on

its great reputation and upon its tremendous powers for attracting gold—*in times of peace*,—deliberately elects to allow practically the whole of the new supplies to go past it rather than pay the price of holding a larger stock, believing, no doubt, that the loss of interest which the maintenance of an increased reserve would involve, might jeopardise its position as supplier of the cheapest capital in the world. As all frankly admit, this light-reserve policy means little or no risk, *in times of peace*. (Indeed, if universal peace could be positively guaranteed, and also the due fulfilment of all monetary obligations,—in other words, if the millenium were anywhere within measurable distance,—gold reserves might be dispensed with altogether. They are, of course, only the measure of our advance from conditions of barbarism). But in the event of commercial crises or political upheavals—local and international—a small gold reserve means a risk of financial disaster. And as the world has by no means advanced to the stage when commercial crises and political imbroglios are outside the realms of the possible, it behoves us to maintain a gold reserve more in proportion to our responsibilities and to the actual conditions of commercial and political worlds, than that on which we are at present relying.

41. There is yet another matter to be considered, perhaps the most important of all. Reference has already been made to the fact that gold is now slowly but steadily depreciating in value,—that prices are everywhere rising. To all fixed wage earners, and particularly to all workers on the lowest stages of the mechanism of modern production, (*i. e.*, to over three quarters of the population of every nation, India included), this loss of purchasing power involves the cruelest injustices which it ought to be one of the first aims of Government to remove. The only conceivable method by which the situation can be ameliorated is by encouraging in every possible way the further use of gold both in the arts and for currency purposes. To economise and check the use of gold money by promoting the manufacture of millions after millions of silver coins in India, as the Secretary of State did for several years in succession, is simply to swell the volume of metallic money available in the world, and so to emphasise the rise in prices which, on every ground,—justice, expediency, sound administration,—it is Government's first duty to arrest.

42. The case has now been completely stated. It only remains briefly to recapitulate the grounds upon which this plea for a gold currency for India rests. It is assumed that the superiority of gold over silver as a chief monetary instrument is as patent as the superiority of silver over, say, cowries. What is required is a Purchasing Instrument whose efficacy is most widely recognised: a Measure of Value whose stability is as near perfection as is humanly possible: a Standard of Deferred Payments satisfactory both to debtors and creditors: and a Store of Value upon which the individual agriculturalist, manufacturer, or trader can rely with the same certainty as the Bank of England or the Governments of Europe and America. Gold answers to these several requirements more closely than any other metal. Moreover its superiority in appearance and portability is obvious to all. If it be murmured that the value of, say, the sovereign or the half-sovereign is high—too high—for an agricultural population such as form the great majority of the peoples of India, the reply is that probably more individuals in India are in a position to use gold coins for their requirements than in the United

Kingdom itself. India with its 315 millions of people, and a trade—internal and foreign—greater than that of all the Self-Governing British Colonies put together, must no longer be put off with a second-rate currency manufactured from a seriously depreciated metal that has long ceased to satisfy portions of the Empire of not one quarter her wealth, power, and prestige.

43. An open Mint is the first step. The part which such Mints play in all modern currency systems may here be recalled. The general level of prices is undoubtedly connected (though in Western Nations who employ highly developed credit machinery, the connection is considerably obscured), with the volume of money in circulation. If prices in Country A are relatively low, the outside world—Countries B, C, D, &c.—are induced to purchase freely of A's goods. This involves an inflow of gold into A, the gold being converted into legal tender money through the agency of A's Mint. The increased demand and inflow of money, however, tend to raise prices in Country A: perhaps so much so, that Countries B, C, D, soon see an advantage in shipping goods to A for sale in that market. Such transactions probably result in the balance of trade turning against A, and an adjustment is made by shipping bullion or specie from A to some other part of the world where it can be more profitably employed. Crudely stated, this represents the underlying principles that guide movements of bullion and specie for currency purposes, and that regulate the adjustment of international price levels. Only by means of open Mints, it will be noted, is it possible for the public to convert precious metal into legal tender money. Thus the open Mint is the automatic regulating machinery by which the world-equilibrium is maintained,—an equilibrium of international price levels on the one hand, and of the volume of the currency to the requirements of the public on the other.

44. Without this essential mechanism of an Open Mint, neither the currencies nor the general levels of prices of the various countries of the world are free to adjust themselves rapidly and without hindrance, to public demands. In the absence of an Open Mint, all additions to, and deductions from the volume of currency in circulation have, perforce, to be made by some government department. In such circumstances, Government is constantly subjected to pressure from this or that interest to supply more money or to take money off the market, (and thus indirectly, to manipulate price levels); and the result means not only friction and delay, but, no matter how conscientiously Government may endeavour to carry out this work, it will inevitably be subjected to adverse criticism by those who are unable to understand, or to appreciate, or to accept each money-making or money-reducing transaction. The drawbacks of a 'State-managed' currency are so notorious and so widely recognised that no great nation in the world at the present day attempts to control the volume of currency to be created or to be withdrawn week by week: but, having established Open Mints for the free coinage of full legal tender money, the Governments of the world leave the operation of their Mints to the demands of the public India is the only great country in the world (with the exception of China) the management of whose currency is still left in the hands of government officials, an arrangement to which we can find no parallel since the period of the Middle Ages.

45. An Open Mint being established, the next step would be to define exactly where the Secretary of State's functions in relation to the Indian Currency should end. India, like every other division of the British Empire (and, it may be added, most Foreign nations), is under a yearly obligation to Great Britain for capital and services supplied. The sum payable by India may be taken roughly at £ 16,000,000 per annum. At a period when the Indian Mints were open to the free coinage of silver, and when the public were always able to obtain as many rupees as they required by the simple process of importing silver and asking the Mint Authorities to convert that silver into legal tender money, it was a convenience for the Secretary of State to procure this £ 16,000,000 by selling his drafts on the Indian Treasuries at a shade below the cost to the public of importing silver into India. The price that the Secretary of State obtained for the rupees that he offered for sale, was governed from day to day by the gold price of silver in the markets of the world. Nobody would, of course pay the Secretary of State more for a rupee than they could obtain a rupee for, by purchasing silver and having the same converted into a rupee at one of the Indian Mints. These being the conditions, the Secretary of State wisely arranged to sell his drafts on the Indian Treasuries by public auction. In this way, he succeeded week by week in obtaining the best possible price for the rupees that he sold.

46. With the closing of the Indian Mints to the free coinage of silver in 1893, the *raison d'être* of these weekly auctions of Council Drafts vanished. From that year nobody could obtain new rupees, or indeed, any rupees at all in large quantities, except by purchase from the Secretary of State. The Secretary of State was in fact in the position of a monopolist, able to obtain his own price for such rupees as it pleased him to sell. Whether he made his selling price 1*s.* 4*d*, or 1*s.* 6*d*, or even 2*s*, the public would in the end be compelled to pay the price that he demanded. Yet,—such is the force of habit,—the Secretary of State continues to this day to go through the same business of inviting tenders for the rupees that he proposes to auction each week; and, as his sales save the public the trouble and expense of shipping sovereigns to India (where the coins are the legal equivalent of Rs. 15), his actions are invariably applauded in some quarters, the more especially as, for the greater part of the year, he very obligingly—and quite unnecessarily—sells his rupees at less than the equivalent of what it would cost the public to place sovereigns in India. Not only this. Having disposed of the 24 crores of rupees which the Government of India place at his command and realised the £ 16,000,000 required to liquidate the Home debt, the Secretary of State does not stop further sales of Council Drafts, but continues accepting tenders for rupees, week after week, to an apparently unlimited extent, mostly at below gold specie point too, till his cash accumulations in London for which he has no legitimate use, have lately amounted to a figure that has everywhere aroused hostile comment.*

* At the last Meeting of the Supreme Legislative Council in Simla (18th September 1911), the Hon Mr. Armstrong asked, *inter alia*, if the Government would be pleased to state "whether much larger cash balances are now held in the Home Treasury than formerly, and if so, to state the reason for this." Sir Guy Fleetwood Wilson admitted the impeachment, and gave amongst other explanations... "the heavy sales of Council Bills and Telegraphic Transfers in excess of the requirements of the Home Treasury."

See also the *Times of India* of 28th September 1911, and the *Pioneer* of 5th October 1911 which contain adverse criticisms on the state of affairs now revealed. The cash balances in the hands of the Secretary of State in London have risen from £ 4,607,266 in March 1908 to no less than £ 16,697,245 in March 1911!

47. This anachronism of a State managed currency, with its attendant inevitable irregularities, might now fittingly be brought to an end. The adjustment of India's external debt should be effected in exactly the same way as in the case of Canada or Australia, namely through the agency of the leading Banks, the operation being kept altogether separate and distinct from the work of the Indian Mints. The inflow or efflux of bullion and specie into, or out of, India is a matter over which neither the Secretary of State nor the Government of India should attempt to exert the slightest control. The movements should be spontaneous, the only impulse being the requirements of the public arising out of the natural ebb and flow of the world's commerce.

48. Canada's total State debt is £ 94,132,609 of which £ 52,900,902 is payable in London. The annual interest on the portion of the debt payable in London amounts to £ 1,867,370 (31st March, 1910). This interest is paid by the Bank of Montreal who are the financial agents of the Dominion Government in this connection. Australia's total State debt amounts to £ 251,773,533 of which £ 189,410,036 is payable in London. The interest on the London portion of the debt is approximately £ 9,000,000 per annum. How is this £ 9,000, 000 paid? Not by the High Commissioner of the Commonwealth putting up the interest to auction in weekly lots, and by granting to the highest bidders orders on the Australian Treasuries to pay out sovereigns in Australia in exchange for sovereigns received by him in London; but a simple business-like arrangement with the London Country and Westminster Bank and with other Banks who have headquarters and branches in England and Australia, and who make the necessary payments of interest twice a year to those entitled to receive the same.

49. Here we see in operation those sound principles of monetary science which it is so essential should be adopted forthwith in the case of India,—Mints open to the free coinage of gold,—a gold currency as well as a gold standard,—and Government entirely disassociated from any attempt at currency manipulation. There are in the case of India several powerful and excellently managed Banks between whom the duty of paying £ 16,000,000 per annum in London in exchange for some Rs. 24,00,00,000 delivered to them from the Treasuries in India might appropriately be divided. New Government of India sterling loans could also,—if desired,—be floated and disposed of by the Banks, and the interest annually distributed, all through the same agencies. One very important point should be noted. The exact amount of the annual payment for Home Charges having been decided upon and budgeted for, no further remittances from India to London would be made on Government account. The balance of trade in India's favour would have to be finally adjusted in exactly the same way as in the case of every other country in the world, namely, by the shipment of bullion and specie—chiefly gold—to India.

50. In the carrying out of the policy here advocated, it may be mentioned that the melting down and disposal of rupees in order to purchase gold for coinage is not contemplated. The silver coins of India would remain, as they are at present, mere tokens, representing, in the case of the rupee, one-fifteenth part of a sovereign. No fresh supplies of these tokens would probably be needed for some years, provided no restrictions whatever be placed on the free importation and circulation of gold in India. More particularly is this result likely to come about if India's open Mints be equipped for the coining

of distinctively Indian coins, such as the *mohur* and the *pagoda*. The natural inflow of gold in adjustment of the balance of trade would in all probability be quite sufficient for the building up the required gold currency in India.

51. It may be at once admitted that the adoption of the Indian Currency Committee's Report would mean the importation into India of a continuous stream of gold, possibly at the rate of £ 500,000 a week. Moreover a large portion of this gold would probably be drawn from London. Nothing that the London Money Market can do, however, will permanently check the flow of gold eastward. So long as British administration, British enterprise, British example in matters economical, and a maintenance of the *pax Britannica* stimulate the continued commercial, social and political development of India, so long will this country require a larger and larger volume of gold in settlement of the balance of her huge and ever expanding over-sea trade, and of her constantly growing demands for everything that is best,—for currency as well as for decorative and ornamental purposes. The devious methods of the last few years have but temporarily delayed the inevitable. There now being no more Gold Standard Reserve, but a small margin of the Paper Currency Reserve, and practically no more spare cash in the Indian Treasuries to transfer from India to London, the greatest money market in the world is at length face to face with the nightmare that has so long haunted it,—a continuous and ever increasing flow of gold to India. Doubtless Western financiers will before long recognise that their fears with regard to this normal movement of the precious metal to India are, after all, but a nightmare, and that the reality is not nearly so fearsome as the imaginative editor of the *Statist* and some other monetary experts would have us to believe.

52. In conclusion we may now summarise the many advantages which would follow an immediate adoption of the Indian Currency Committee's Report, and of the establishment of a full-value, legal tender, gold currency in this country. The advantages can be appropriately grouped under three headings: thus,

ADVANTAGES TO INDIA.

(1) The opening of the Indian Mints to the free coinage of gold and the introduction of a gold currency into every day use, would give to India a monetary medium far superior in appearance and portability to silver. Further, such a medium would exhibit in the highest possible degree every quality which good metallic money should possess, and would at the same time raise India to the level of the most advanced nations of the West so far as her currency was concerned.

(2) India's silver currency would be for ever placed on an absolutely stable basis with no possibility of serious depreciation or sudden collapse, with attendant ruin to all classes and most grave embarrassments to Government.

(3) India's financial strength in the eyes of the world would be immensely increased. Capital is one of the prime essentials of wealth creation. India with a gold currency would be able to borrow capital on far more favourable terms than at present.

Moreover, the increased confidence which a gold currency would create, would act as a most powerful stimulus to every form of economic development.

ADVANTAGES TO GREAT BRITAIN.

(1) The steady and continuous withdrawal of gold from London to India would force upon the attention of the peoples of the United Kingdom the very unsatisfactory, not to say dangerous, condition of their own gold reserves—private reserves as well as State reserves.

(2) The strengthening and building up of those reserves which must assuredly follow, would mean increased commercial and political strength at Headquarters, and therefore an improvement of the resources of the whole Kingdom.

(3) The creation of an immense stock of gold in the currency and reserves of India, whilst adding immensely to India's strength, would at the same time, mean an addition to the resources of the Empire as a whole.

OTHER ADVANTAGES.

(1) Allusion has been made to the fact that a phenomenally large output of gold from the mines of the world is being accompanied by a world-wide depreciation in the value of the precious metal; that prices are everywhere rising; and that the fixed wage-earning classes who constitute a very large proportion of the population of every nation, are therefore enduring disappointments and hardships which, in the case of the poorest of the poor, are in fact cruelties of civilisation for which it is the urgent duty of every government and every thinking citizen to attempt to find a remedy. Though certain Governments have already taken steps to investigate the situation, very serious "labour" troubles have in the mean time occurred in the United Kingdom, whilst "dear food" riots have broken out in several parts of Europe. Whilst it would be incorrect to attribute these terrible upheavals solely to a depreciating currency, there can be no question that the position is painfully aggravated by the shrinkage in the purchasing powers of money that is now in progress. The currency policy for India here advocated would mean not only more gold in demand for Great Britain, but a continued withdrawal (and to some degree, consumption) of gold by India. Such additional demands for gold could but tend to increase the value of the metal, and so, perhaps, arrest the rise in prices now taking place (in India as well as Europe), to the very great relief of the whole of the Eastern and Western worlds.

53. There are, then, the best of reasons—local, imperial, and universal—why the recommendations made by Sir Henry Fowler's Committee of Experts in 1908 should be carried into practice forthwith. It is for India to take action.

M. de P. WEBB.

Karachi, 7th October, 1911.

Proposed draft Bill by the Hon. Mr Webb.

BILL No. I OF 1912.

An Act to amend the Indian Coinage Act, 1906.

WHEREAS it is expedient to amend the Indian Coinage Act 1906 in manner hereinafter appearing,

It is hereby enacted as follows:—

1. (*a*) This Act may be called the Indian Coinage Amendments Act 1912·

(*b*) It extends to the whole of British India, inclusive of British Baluchistan, the Santhal Parganas and the Pargana of Spiti.

2. In this Act "the Gold Standard Reserve Fund" includes the existing Gold Standard Reserve Fund and all sums already received to the credit of the Gold Reserve Fund and the Gold Standard Reserve Fund from the coinage of new rupees and half-rupees since the 26th June, 1893.

3. After Section 3 of the Indian Coinage Act 1906, hereinafter called 'the said Act," the following sections shall be inserted:—

Gold Coinage.

(4) The following gold coins shall be coined at the Mint for issue under the authority of the Governor-General in Council: namely,

(*a*) A Gold Mohur or Indian sovereign.

(*b*) A Pagoda or Indian half-sovereign.

(5) (*a*) The standard weight of the Gold Mohur or Indian sovereign shall be 123·27447 grains troy; and its standard fineness shall be as follows, namely, eleven-twelfths fine gold and one-twelfth alloy.

(*b*) The Pagoda or Indian half-sovereign shall be of proportionate weight and of the same fineness,

Provided that, in the making of gold coins a remedy shall be allowed of an amount not exceeding the following, namely:—

Denomination of Coin.	Remedy Allowance.	
	Weight per piece.	Millesimal fineness.
Gold Mohur or Indian Sovereign	0·20 grains.	2
Pagoda or Indian half-sovereign	0·15 ,,	2

(6) Where any person brings to the Mint any gold bullion, such bullion shall be assayed and coined and delivered out to such person, without any charge for such assay or coining, or for waste in coinage,

Provided that—

(*a*) If the fineness of the whole of the bullion so brought to the Mint is such that it cannot be brought to the standard fineness under this Act of the coin to be coined thereout, without refining some portion of it, the master of the Mint may refuse to receive, assay, or coin such bullion.

(*b*) Where the bullion so brought to the Mint is finer than the standard fineness under this Act of the coin to be coined thereout, there shall be delivered to the person bringing the same such additional amount of coin as is proportionate to such superior fineness.

No undue preference shall be shown to any person under this section, and every person shall have priority according to the time at which he brought such bullion to the Mint.

4. In Section 4 of the Said Act, after the words "silver coins" the word "only" shall be omitted.

5. In section 10 of the Said Act, Clause (*a*), after the word "all," the words "gold, silver, nickel and bronze," shall be inserted and the words "referred to in sections 4, 6 and 8," shall be omitted.

6. In Section 10 of the Said Act, Sub-section 2, after the word "designs" the words "of the gold coins coined under this Act shall be those prescribed for the British sovereign and half-sovereign; and,"—shall be inserted.

7. After section 10 of the Said Act, the following section shall be inserted :—

(14) The Gold Mohur or Indian sovereign, and the Pagoda or Indian half-sovereign shall be a legal tender (as the equivalent of fifteen rupees and seven and a half rupees respectively) for a payment of any amount.

Provided that the gold coins,

(*a*) have not lost weight so as to be less than 122·5 grains for the Gold Mohur or Indian sovereign and 61·125 grains for the Pagoda or Indian half sovereign.

(*b*) have not been defaced.

8. After Section 20 of the said Act, the following sections shall be inserted :—

(25) The Governor-General in Council may from time to time issue to the master of the Mint out of the general revenues of the Government of India, such sums as may be necessary to enable him to purchase bullion in order to provide supplies of coin for the public service.

(26) All sums received by the master of the Mint in payment for rupees and half rupees produced from silver bullion purchased for coinage, shall, after the cost of the silver bullion used in the manufacture of the said rupees and half-rupees has been deducted, be kept separate from the general revenues of the Government of India and paid into the Gold Standard Reserve Fund.

(27) The Gold Standard Reserve Fund shall be held in India in gold.

9. Sections 4 to 10 inclusive of the said Act shall be re-numbered 7 to 13 respectively; Sections 11 to 20 inclusive of the said Act shall be re-numbered 15 to 24 respectively; and Sections 21 to 24 of the said Act shall be re-numbered 28 to 31 respectively.

STATEMENT OF OBJECTS AND REASONS.

The object of this Bill is to give effect to the recommendations of the Indian Currency Committee, 1898.

Notes on Clauses.

Clause 3.—The additional sections are taken from the British Coinage Act, the weight, fineness, and remedy for the Gold Mohur and Pagoda are exactly the same as those of the British sovereign and half-sovereign.

Clause 7.—The legal tender clause has been adopted from the legal tender provisions of the British Coinage Act.

Clause 8.—The new sections are to give powers to the Government of India to provide coins for the public use as may be found expedient; to provide for profits on the manufacture of rupees and half-rupees being carried to the Gold Standard Reserve Fund; and to provide for the retention of the Gold Standard Reserve Fund in Gold, in India.