VIII.—*On the Importance of extending the British Gold Standard with Subsidiary Silver Coins to India, as a remedy for the inconveniences in India from the rapid Depreciation of Silver.* By W. Neilson Hancock, LL.D.*

[Read in Section of Economic Science and Statistics, British Association, Glasgow, September, 1876.]

THE great change which the value of silver is undergoing raises some of the most interesting and important questions within the range of economic science, and the great body of information collected by the Committee on the Depreciation of Silver, together with their valuable report, supply quite sufficient materials for the satisfactory consideration of some of these questions. It is obvious to anyone reading the report, that the British currency occupies an exceptionally satisfactory position for meeting the great fluctuation in value which silver is undergoing. We are indebted for this to great statesmen and thinkers who have gone before us—to Lord Burleigh, for completing the settlement of the currency in the reign of Queen Elizabeth—to Locke and Sir Isaac Newton for their advice to the government of William III. which led to the supremacy which gold ever since has had over silver in the monetary system of England—to Lord Liverpool, for his great report, which led in 1816 to the adoption of a single precious metal as a standard of value—to Sir Robert Peel, for the resumption of cash payments in 1819—and to him and Lord Overstone, for the Bank Act of 1844.

From the great benefits which we thus enjoy, one portion of Her Majesty's dominions has been, by what I may call an accident, excluded. Had the proposals made for substituting the direct government of the Crown for that of the East India Company, which were made at the end of the last century, been adopted, in all human probability the problem of Indian currency would have been dealt with by Lord Liverpool, and included in the settlement of 1816; or if it were then postponed, it would have been dealt with at the assimilation of the Irish and British currency in 1825, or at the bank settlement in 1844. India being under the government of the East India Company, the primitive arrangement of a silver standard was allowed to continue, even in the very defective form of having different kinds of rupees in each of the three Presidencies, of different weights, and with different proportions of alloy. This unsatisfactory state of affairs in India continued till 1837. At that time a very large and substantial reform was effected. For the three rupees then current, a new Company's rupee was substituted but the use of silver as a standard was not changed. The result is, that while in the rest of the British dominions the depreciation of silver has caused little or no inconvenience, it has produced a most serious fall in the exchanges between this country and India, and has disturbed trade and monetary transactions in India generally.

One of the main causes of this disturbance is the discovery of very fertile silver mines in California, where the cost of production

* This paper is printed at the cost of the author.

is likely to be permanently changed. From this circumstance, taken in connection with improved processes, the introduction of cheap labour from China, and abundant capital from New York, owing to the facility of intercourse consequent on the construction of the Omaha and San Francisco railway, we have no guarantee against a further and still more disturbing fall in the value of silver, like what took place in the sixteenth century, after the discovery of the silver mines of Potosi, when silver fell to a third of its former value.

The question then arises, why should our Indian fellow-subjects be excluded from the benefit of the principles of currency which we think good for ourselves, and which the recent inquiry has not questioned or impugned. It must be conceded that if the assimilation of the Indian and British currencies had taken place in 1816, when our currency was last settled, or in 1833 when the Indian currency was settled, no difficulty would have arisen, any more than it has in Canada or Australia. It will be said that no matter how desirable this might be, there are difficulties in the way.

But we must recollect all our currency reforms have arisen out of monetary crises, and were attended with difficulties. Lord Burleigh had to deal with the excessive depreciations made in the time of King Henry VIII., Locke, and Newton with depreciations in the times of King Charles II. and King James II. The inconvertible paper, arising from the Bank Restriction Act of 1795, led to the study of the currency question, which ended in the reforms of Lord Liverpool and Sir Robert Peel.

It might be thought that it would be difficult to make the English sovereign, or one pound sterling, the standard in a country where accounts and dealings have been hitherto conducted in the name of a silver coin—the rupee; but the change of standard from silver to gold does not involve any change in the mode of keeping accounts in rupees. In the Canadian Dominion the British sovereign is a legal tender, though the ordinary currency and money of account is the dollar and cent. All that is essential is to fix the proportion at which a sovereign will be a legal tender; and in the "Appendix to the Depreciation of Silver Report," this proportion is stated to be fixed in Canada and the Cape of Good Hope at 4 dollars, and 80 cents.

As to the legality of changing from a silver to a gold standard, there can be no doubt; it has been done in England years ago. The true business of the state is to adopt the standard which has the greatest constancy in value, and when silver has become less constant than gold, the sooner the British standard is extended to India the less the loss, inconvenience, and disturbance of trade, and of the relations of the different classes of the population, will be; and the less the loss of prestige of British Government in India.

If this change had happened to be made when the rupee was worth exactly 2s., then the British and Indian currencies might have been assimilated with great facility—every sovereign being marked "10 rupees," and the coin "2 shillings," to which we now attach the name florin (which has never made much way with the British public), might have been called instead, a rupee. As that opportunity was allowed to slip past, the assimilation of the currencies would require a change similar to what was carried out in Ireland in 1826. Before that date, contracts for £13 in Ireland in Irish money were equivalent to contracts for £12 in British money. An act was passed declaring that all contracts in Irish pounds, shillings, and pence before a certain day, should after that day be converted into their equivalents in British pounds, shillings, and pence, and the whole change was carried out with very slight inconvenience, as the records of that period show.

Now a change of this kind might be applied to the case of the Indian rupee. Suppose the British sovereign was made legal tender in India, at the rate, between the sovereign and Indian rupee immediately preceding the time of the change made; a new British rupee might be coined of the British standard silver, stamped as a British rupee, and British sovereigns might be stamped "10 British rupees;" then it might be declared that contracts made in Indian rupees should be fulfilled by a proportional amount of new British rupees. The sovereign being legal tender for 20 British rupees and upwards, and British silver rupees legal tender in lesser sums only. Suppose the rupees depreciated 20 per cent. below the value of 2s. a rupee, the proportion would be 10 Indian rupees to 8 British ones, or as 5 to 4.

If a similar principle were applied to the Canadian currency, and 100 Canadian and Cape of Good Hope dollars were changed into 96 British dollars, Her Majesty the Queen might be represented by a uniform currency throughout the entire of her dominions. Every sovereign might be marked "1 pound," "5 dollars," "10 rupees." New four shilling coins might be issued, marked "1 dollar," "2 rupees," "4s."; and instead of the florin all future two-shilling pieces should be marked "1 British rupee," "2s." ½ a dollar;" shillings should be marked "1s." "½ a rupee,," "¼ a dollar;" sixpence should be marked "6d." "¼ rupee," and "⅛ dollar."

The settlement of the dollar with Canada might induce the Americans, when they are returning to cash payments, if they followed Germany and England in a gold standard, to make their dollar equal to 4s.

In making these propositions, I am quite aware that such changes require, at the present day, a strong public opinion to enable any minister or government to adopt them; and it is with a view of endeavouring to form public opinion, that I have ventured to add this small contribution to the discussion before this Association.

Although it appears that India is suffering already, and likely to suffer still more for want of the simple measure of an assimilation of currency with the rest of the Empire, there are persons found to re commend that statesmen should fold their hands and let matters drift by chance. The best answer to such suggestions is to be found in the history of the former crises of our currency, set out on the high authority of the Report of the Committee of the Council on the Coins of the Realm in 1798, drawn up by the great Lord Liverpool, who was afterwards prime minister for so long a time. In speaking of the derangements of the currency, introduced by King Henry VIII., and in the early years of King Edward VI, the report says:

"Such was the confusion then introduced into the coins of this country, that the committee have found it difficult to state and explain with any degree of perspicuity, the several debasements and alterations made in them, and it is not easy to conceive in what manner any exchanges or payments could at that time be made; the fact is that all commerce was nearly at a stand—the farmers were unwilling to bring provisions to market, and when they offered them for sale they did not know what price to set upon them; merchants and tradesmen greatly increased the price of every article which they had to sell. The government tried every method to keep up the value of the debased coins then in circulation. . . . . It was at length, however, discovered that no effectual remedy could be applied to the evils then existing, but a total reformation of the coins of the realm. This measure was undertaken in the last year of the reign of Edward VI. It is extraordinary that the ministers of this prince, who had hitherto committed such gross errors in debasing the coins of the kingdom, should instantly adopt principles which led to a system, not perfect, indeed, but as nearly perfect as any to which the other nations of Europe have hitherto attained in their coins. They carried on this reform with so much diligence and vigour that even before the death of King Edward VI., it was in part executed to the general satisfaction of the public. Queen Mary continued nearly to pursue the plan so adopted by her brother, and Queen Elizabeth completed it."

Here we see that when evils arise from the state of the laws there is no remedy but a reform of the law. A similar derangement of the currency took place at the commencement of the reign of King William III., owing to the mismanagement in the reign of King Charles II. and King James II. The result was reported to the Treasury by Mr. Secretary Lowndes in 1695. He reported—

"That in consequence of the defective state of the silver coin, great contentions daily arose amongst the king's subjects in fairs, markets, shops, and other places throughout the kingdom, to the disturbance of the public peace; that many bargains and dealings were totally prevented and laid aside, which lessened trade in general; that persons before they concluded any bargain were necessitated first to settle the price or value of the very money they were to receive for their goods, and that they set a price on their goods accordingly; that these practices had been one great cause of the raising the price, not only of all merchandize, but of every article necessary for the sustenance of the common people, to their great grievance; that the receipt and collection of the public taxes, revenues, and debts, were extremely retarded, to the damage of His Majesty."

In King William's time we had a double standard. King William's government, under the advice of Mr. Locke and Sir Isaac Newton, settled the difficulty by a reform of the currency, as the previous difficulty in the reign of Edward VI. had been settled in the way commenced by the ministers of that monarch, and completed by Lord Burleigh in the reign of Queen Elizabeth. In both cases the successful solution of the difficulties led to a great strengthening of the authority of the monarchs by whose ministers the reforms were completed We now come to the case (most nearly resembling the present crisis) to which no remedy was applied. From the second year of the reign of King James I. inclusive, to the 15th of King Charles II., the fall in the value of silver compared with gold was very great and rapid—amounting to about 25 per cent., or a fourth.*

* Lord Liverpool's report refers to this as a rise in the value of gold *compared with silver* of $32\frac{8}{67}$ per cent., or a third.

Lord Liverpool's report as to this change states:—

> "The great inconveniences which the people of this kingdom suffered from the many and sudden changes in the value of these metals during these sixty years, and the difficulties to which government was on that account exposed, are fully proved by many entries in the Book of your Majesty's Privy Council, and by the chronicles and writings of these times. The ministers who then served the Crown—among whom there were men of great knowledge and talents—particularly Sir Francis Bacon, the first philosopher of the age—had frequent consultations on this subject by order of their sovereign, and they took the advice of merchants, bankers, and other persons supposed to be best versed in a business of this nature, but they were never able to discover a sufficient remedy."

What Lord Bacon and the ministers of King James I. and King Charles I. were unable to discover, Locke partially discovered, and Lord Liverpool subsequently carried out—the selection as the single standard of value, of gold, the precious metal least subject to variations in value. The weakness of the governments of King James I. and King Charles I. in not dealing with this great question, and the loss of power consequent on that weakness, present a contrast to the ability of the government of Queen Elizabeth and King William III. in their currency legislation, and the strengthening of their power that resulted therefrom. Lord Liverpool's report describes the result of the reform in Queen Elizabeth's time .—

> "The joy expressed at the completion of this reform was very great: the parliament and people in their addresses to Queen Elizabeth always mentioned the reformation of the coin as one of the principle merits of her reign, and it is recorded as such in the epitaph on her tomb."

The early years of Her present Majesty's reign were distinguished by the great reform for securing the perfect convertibility of Bank notes into gold, embodied in the Bank Act of 1844, which we owe to Sir Robert Peel and Lord Overstone. It would be a fortunate circumstance if the currency reform could be completed in the same reign; and the assumption of direct sovereignty in British India marked by the rescuing of our Indian fellow-subjects from the serious evils in which the silver standard which prevails there has involved them, and the extending to them the benefits of the more perfect and stable system which we have so long enjoyed. In this way the sovereignty of the Queen would in the circulation of British rupees and British sovereigns, marked with their fixed proportions of rupees, be associated to the mind of every native of India with a lasting benefit conferred on himself and his country.