THE GREAT DRAIN OF GOLD TO INDIA

Thirty-four years ago there appeared in the *Edinburgh Review*[1] a paper which by focussing the effect of the then recent gold discoveries on the sociology of the time attracted a world-wide attention to the science of money—that most dismal chapter of the 'Dismal Science.' The reviewer, his brilliant pages demonstrating the universal rise of wages and prices, and the great reduction of the burden of national and mortgage debts, concluded with these words :

> The world has come to the close of a very memorable epoch. The present generation has seen come and go the most remarkable outburst of material prosperity which has ever visited the nations of mankind. The epoch has been short lived as a northern summer and the world has fallen into winter again. But a large portion of the fruits of that golden summer enduringly remain a rich heritage for subsequent generations.

Such was the new birth of things occasioned by the gold discoveries first in California and a few years later in Australia. A second and a more prodigious treasure trove has since been discovered, this time in Africa. But no spendthrift has ever lavished a vast inheritance, as our world has now twice dissipated what Mr. Gladstone in the House of Commons accepted as the 'interposition of a Divine Providence'; and just as the world fell into winter again forty years ago, so I am convinced that we are now admiring the late autumn leaves, and that another winter of our discontent is not far away.

'Of all human machinery,' said Wolowski, 'Money is that which costs the least when we consider the service it performs,' and having won this gold at an inconceivable cost, if we consider its economic cost in California and Ballarat,[2] and the teachings of recent South African history, we are to-day shovelling it

[1] 'The Golden Age,' January 1879.

[2] A U.S. Commission which reported on the cost of producing the Californian gold, showed that for 1853, the year of maximum yield, the wages cost alone of producing the 13 millions sterling was 67 millions. Jevons, investigating the cost of the Australian gold, gave miners' wages at 13*l*. per month; the yield of gold per miner at 5*l*. 12*s*.

under the hearthstones and into the hiding-places of three hundred millions of our fellow-subjects in India. Gold is the very bedrock of modern international finance. One sovereign is the foundation on which is erected through loans, discounts, and other credit emissions, at least ten pounds of effective price-making money. But leach away that sovereign, and when its abstraction comes to be discovered, then credits shrink, prices wither, and the Bank rate rises rapidly. The longer the peril—known at first but to a few money kings and their press, voiceless because of their responsibility—the longer that peril is undisclosed, the more acute the panic when it comes. Yet the world, social, industrial, political, hates all reference to these matters. Better red ruin than any study of Exchange problems.

And to-day this, too, adds incomparably to the difficulty of the legislator; his advisers are all dead. He is himself likely to know nothing of the problem, and to whom can he turn? Little more than a quarter of a century ago the services were available of a brilliant band of men, experts in the highest sense. Jevons and Ernest Seyd and Bagehot; the first Lord Aldenham; Sir Louis Malet, Sir Robert Giffen. And on the Continent Cernuschi, De Laveleye, and Wolowski. In America those pre-eminent economists, Francis A. Walker, Senator Jones of Nevada; their fellow-workers Dana Horton and Warner; men these to whom the great problem of the Exchanges (what was called the 'Silver Question') was part of their daily walk and conversation. But they have left no successors; scarcely even a handful of disciples; while the younger generation which now fills the economic chairs in our Universities is almost criminally dumb. Because the economists have misled us with an inherited theory of commercial exchanges, the problem of monetary exchange at a moment of supreme crisis—this, ever since the nineteenth century went out, these professors have clean turned their backs upon.

It has become of urgent importance that the currency policy of the Government of India should be investigated. In error and in obsession, in flat defiance of every currency law in every book, official India ever since 1893 has just gone from strength to strength. Only a Commission confronted with overwhelming and often painful evidence can call a halt. The Government of India, its Civil Service, all those bright pages that are so fairly the product of our occupation of India and our trusteeship—these things are our pride and delight. But the currency policy of that Government since 1893 menaces the whole Western world, not much later, with a disaster which may well put back the hands on the clock of human progress.

We have fallen on days when legislation occupies itself perhaps too much with social empirics. I take one experiment justified and acclaimed, the recent Wyndham Land Act; the proposed purchase and transfer of all the land in Ireland to a peasant proprietary. The success of this experiment depends largely, if not altogether, on prices; the price at which the new proprietor can sell his cattle and crops, so as to buy the gold with which he pays his instalment to the Government. What has been the course of prices recently? Let me quote Mr. Augustus Sauerbeck's 'Index Numbers':[3]

	Vegetable Food	Animal Food
1903	62	84
1911	70	90

If we lump the two foods together the index number for the Irish farmer has risen from seventy-three at the passing of the Wyndham Act to eighty last year; in other words, the produce which would have secured the farmer only 73*l.*, now eight years later would bring him 80*l.* Thus the Irish experiment, thanks to *rising* prices, goes forward to the making of a happy community. Had the Wyndham Act come a few years earlier, say in 1896, the improvement in prices would have been much more marked still. The farm produce which in 1896 would have bought the farmer then only 63*l.*, would last year have bought 80*l.* Now let us ask, with Mr. Sauerbeck's luminous figures before us, what would have been the lot of the new Irish peasant-proprietor had the Wyndham Act burdened him with his property between 1867 and 1877? At the average rate for prices then, the produce which purchased one hundred sovereigns would in 1896 have bought him 63*l.* only. The peasantry of Ireland had the Wyndham Act been passed in 1870, would have been ruined by the great fall of prices and the enhancement of their mortgage, and, no doubt, after a 'no rent' campaign, would have compelled the British Government to 'reconstruct the company.'

At the recent meeting of the Paris Statistical Society, M. Alfred Neymarck said, with evident impatience: 'On every side we hear it repeated as though an axiom, needing no proof, that if prices go up it is because there is more gold. The rise in prices, they all cry in unison, is due to the gold production.' I share M. Neymarck's impatience. Apparently the supplies of the new gold are not now keeping pace with the expansion of the world's foreign commerce. Mr. Austin, the Chief of the Bureau of Statistics at Washington, in the latest United States Statistical Abstract, gives the world's aggregate foreign commerce in 1910 at seven thousand millions sterling, and its

[3] *Journal Statistical Society*, March 1912.

increase since 1895 has been at the rate of 7 per cent. per annum. Now the increase of the world's production of gold for the past three years has been at the rate of less than 2 per cent., and yet general prices have risen considerably. A chief cause of the world-wide advance of prices is undoubtedly, as Sir Edward Holden has recently pointed out,[4] the immense inflation by credit-money. Bankers misled by the large arrivals of new gold and attracted by the profit of lending at high rates, are lending freely; and it is the unexampled emission of credit-money which must be held responsible for the advance of all prices. The following short table taken from the report of the United States Director of the Mint, tells the whole tale:

Census of the Gold Reserves of the Leading Banks of Europe and America

	Dec. 31, 1899 £	Dec. 31, 1910 £
Bank stocks of gold in sterling	500,000,000	850,000,000
Increase	—	350,000,000
Notes in circulation . .	640,000,000	1,040,000,000
Increase	—	400,000,000
Loans and discounts . .	2,000,000,000	4,000,000,000
Increase	—	2,000,000,000

If, then, the banking hierarchy—the men who sit in half a hundred bank-parlours in Wall Street and Lombard Street—wake up to find that the gold on which they rely is leaving Europe and America for Asia, never to return, there will be a contraction of their credit-money, followed by disasters incomparably graver than those of 1893 and 1907. The persistence of the Government of India in forcing forward their gold standard 'Bimetallism' has become a menace to all Christendom. The whole white world of trade and finance has the right to denounce the methods by which the indifference and ignorance of half a dozen officials in Simla threatens not much later to convulse Europe and America in some irretrievable disaster. It was by reason of the rash experiments of that Government that the late Sir Robert Giffen declared that were we embarked upon any considerable war 'England would suspend specie payments in six months.' It is not too much to say, in view of the present financial relation of 'the City' with India, that in the event of a war the removal of the vast gold balances here belonging to the Indian Government, and which that Government would then require, would culminate in a run upon our banks. A pleasant episode to attend the first weeks of war; a bank panic occasioned by our own Dependency!

The attempt is now being made, the Chamber of Commerce of Karachi and its chairman, Mr. Montagu Webb, being appa-

[4] Manchester, October 23, 1912.

rently the instigators, to force the hand of the India Office a step farther along the road to gold standard bimetallism (the two metals with practically unlimited coinage to be full legal tender at a ratio of one to twenty-four). The really humorous plea is advanced that the so-called Fowler Commission of 1898 recommended this sort of a gold standard. Men's memories are indeed short, if that Commission and its facile acquiescence under orders in the gold standard demands of the Indian Government dare be quoted now only fourteen years later.

It is necessary to refer very briefly to the Indian gold-standard agitation, which dates back to a despatch of the Government of India to the Secretary of State in 1878. The proposal, submitted to a Commission,[5] was negatived by a unanimous report. A despatch from the Lords of the Treasury, in communicating this report to the Government of India (the 24th of November 1879), had this to say of the proposal:

> It appears, too, that the Government of India in making the present proposal lay themselves open to the same criticisms as are made upon Governments which have depreciated their currencies. . . . The Government scheme may relieve the Indian Government and others who desire to remit money to England, but this relief will be given at the expense of the Indian taxpayer, and with the effect of increasing every debt due by ryots to moneylenders.

When, twenty years later, the same gold standard proposal was made, a legacy saddled on Lord Curzon at the moment of his arrival in India by Lord Elgin and Sir James Westland: it was again referred to a Commission—the Fowler Commission—and the announcement of the *personnel* of this Commission was the signal for a protest to Lord Salisbury's Government, happily unique in the annals of 'the City,' and of the cities of Glasgow and Manchester. 'The City' protest, signed by every considerable firm of great financial standing, appeared in *The Times* over the signature of the Governor of the Bank of England, Mr. Hugh Colin Smith. The signatories, after referring to 'the great and general dissatisfaction in the City and elsewhere with regard to the composition of the Commission,' said:

> We would add that it is not clear to what extent the terms of reference to the Committee are limited. But we feel very strongly that no enquiry will be satisfactory that does not include an examination of the entire monetary policy of the Indian Government initiated in 1893 and a report as to the possibility or advisability of maintaining it.—*Times*, May 20, 1898.

In conclusion, the memorialists refer to 'the enormous difficulty there would be in retracing a false step should such be taken.'

[5] Sir Louis Malet, Mr. E. Stanhope, Sir T. Seccombe, Sir T. Farrer, Sir R. Welby, Sir R. Giffen, Mr. A. J. Balfour.

The Manchester protest signed by a thousand firms of bankers and merchants can be read in *The Times* of the 31st of May 1898.

Still the Fowler Commission was persisted in; it reported in favour of gold standard bimetallism for India, but evaded all responsibility for the decision in the following frank paragraph (47):

So far as the proposals of the Government of India were intended to secure the confidence of the commercial community they have failed in their effect. These proposals have not been supported before us by the representatives of the commercial and financial interests connected with India, nor indeed by any of the independent witnesses whom we have examined.

The Times (the 11th of July 1898) denounced this bastard bimetallism in a special article of well merited invective:

We cannot question on scientific grounds that the artificial rupee acts as a heavy export duty and as a bounty to the other silver-using countries against the Indian producer. India has not only been made to yield new taxation, but taxation of a kind which economists universally condemn, and which would not be ventured on in any other country in the world. The legend of a sixteen-penny rupee as the philosopher's stone has ended. Financial rain-making has become a discredited art.

The Editor of that admirable 'gold' organ, the *Statist*, Mr. Lloyd, declared, over his own signature,[6] that the Government of India had 'packed the Commission most carefully, and appointed a chairman who stopped at nothing.' Mr. Montagu Webb, of the Karachi Chamber, who is now apparently the protagonist of this further invasion of Europe's gold reserves, in a very long and admirable denunciation of the Fowler scheme, addressed to that Commission, had this to say:

Sovereigns or other gold coins could never take the place of rupees as money for two reasons: (1) the attractive appearance of the gold coins would certainly lead to their rapid absorption by the wealthier classes either for ornamental or storing purposes, and (2) the poverty of the great mass of the people (a poverty which will be better realised when it is mentioned that most of the natives outside the larger towns have to pay the village moneylender a heavy commission in order to obtain copper 'change' for their rupees) renders a gold coin, or gold in any form entirely beyond their means. . . . The evils attendant upon the introduction of a Gold Standard far outweigh the inconvenience suffered by the Government, by the Exchange Banks, and by a portion of the Anglo-Indian community. . . It is as certain as any proposition in Euclid that a Gold Standard can only be introduced into India, to re-quote the conclusion of the Home Government arrived at nineteen years ago, 'at the expense of the Indian taxpayer, and *with the effect of increasing every debt or fixed payment in India, including the debts due by ryots to moneylenders.*'

[6] *Statist*, July 15, 1899.

The italics are Mr. Webb's. Writing in *The Times* of the 19th of May 1898 of the gold standard proposal, Sir Robert Giffen said:

> The highest political issues are also involved. One of the most dangerous things for a government to do is to tamper with the people's money. Is it certain that the Indian Government can go on long with its present ideas regarding money without producing the gravest complications in the government of India?

The fact is, that since a good, sound, honest, efficient, automatic, monometallic currency and standard was tampered with in 1893, India has been a happy hunting-ground for any empiric who conjured with a new scheme of currency, no matter how fantastic. Instead of admitting after a fair test that no 'managed' currency for such a community could be worked for a twelvemonth even by an Achille Fould, every sort of 'financial rainmaker' has since 1893 been enlarged on our hapless wards. First the gold standard was to be changed to gold by the simple expedient of grabbing rupees wherever found, melting them and selling them for gold. In this way Germany had changed her standard: then why not India? Two years later loans of rupees were made at Bombay at 2 per cent. per month *on the security of gold bars*. Next enter the era of inflation; coin all the rupees you can or cannot circulate; buy ninepennyworth of silver, put the King's head on it, and sell it for sixteen pence. When, in 1907, the Indian currency inflated during two years with 400 million new rupees had become apoplectic, and food prices had risen 50 per cent., the wheels stopped on these 'metallic assignats,' and the mints were abandoned until this year. Meanwhile, in February 1910, a duty of fourpence per ounce was imposed on all imported silver bullion—the first time a tax was ever imposed in all their history on one or other of the precious metals. The idea was possibly to catch a little revenue, but chiefly, no doubt, by a prohibitive duty on a very large and valuable import—the raw material, too, of a beautiful Indian handicraft which has to compete with China and Japan—to enlarge India's balance of trade, and thus enable her Secretary of State to sell his Council Bills at some trifling advance. The immediate and foreseen result has been enormously to curtail the drain of silver to India, enormously to expand the drain of the gold we require for our bank reserves.

When the tale is told in the completed Government Returns next April it will be found that India has drained us in two years of fully 70 millions sterling of gold. Next the banking world will awaken to the sinister significance of these figures, and will discover that the foundations for its huge paper emissions have been undermined. We shall then have a 10 per cent. bank rate; credit contraction; and a huge subsidence of the whole plane of prices shown by the fall in the 'index numbers.' The net import of silver into India the year before the imposition of the silver duties was over 60 million ounces; for the year after it was 32 million ounces. Of gold for the year preceding 3,500,000 ounces, for the year following 6,250,000 ounces (24,000,000*l.*). Nor is this the whole tale. The sale of Council Bills (that is to say, the sale in London of rupees collected in the Indian Treasuries) for the year 1908-9 had been only 21 crores, or 14,144,545*l.*, a sum three millions sterling less than the 'Home Charges'; while for the three succeeding years, so well had the silver trick of a high tariff operated, the Government of India sold Council Bills to the extent of over *eighty million sovereigns*, an amount this thirty millions in excess of their needs.[7] We may be thankful that, notwithstanding the denunciations of Mr. Webb and the Karachi Chamber the sovereigns represented by this vast silver speculation by the Indian Government have not been removed to India, where they are not wanted, but are thus far on loan to our Banks here; had it been otherwise, had this further mass of gold gone East to be distributed amongst the myriad hoarders there, our year would have gone out with a Bank panic in London and New York; truly a merry Christmas prospect! Now the cry from far Karachi is that the Indian Government shall follow still further the advice of the Fowler Commission, and commence the free coinage of gold at India's own mints; in other words, carry these beautiful discs of metal to the very door of the hoarders who, as Mr. Webb so well pointed out in 1898, are waiting to bury and bangle them.

India's favourable balance of trade (the excess of her exports over her imports) was for 1911 52 millions sterling; truly a portentous figure. It gave her an available balance, after deducting 17 millions for Home Charges, of 35 millions. Instead of drawing this in silver, thanks to her new bastard bimetallism she has drawn it in gold. What proportion of the world's gold does this huge sum represent? At present the world's total production of gold is nearly 100 millions, of which one quarter is consumed in the arts and manufactures. Thus, of the 75 millions remaining nearly one-half is being flung upon India at the behest of the Karachi Chamber, or to suit the whim of a few officials at Simla. Three hundred million people by an annual excess of exports over imports of only a half-crown *per capita* deprive us for ever of 35 millions of sovereigns (or nearly one-quarter of our sovereign currency). With the de-

[7] See reply to Mr. Alfred Bigland, M.P., *Hansard*, November 12.

velopment of railways and irrigation works it is quite reasonable to expect that India may presently add a further half-crown to her export balance, and thus strip us completely of the product of the gold mines.

During the years from 1851 to 1885 the annual absorption of gold by India was, according to Soetbeer, 2½ millions, and during the fifteen years 1856 to 1870, while the silver production of all the mines in the world was only 27,980,000*l.*, India, with half her present population, with few railways and largely without the Suez Canal, drew 29,430,000*l.* silver.[8] During the last century the proportions of treasure imported into India were, roughly, four parts silver to one gold; since the imposition of the silver duties the proportions are now nearly eight of gold to one of silver. And were ever such pearls cast before such swine? Mr. Webb, from a plenitude of experience in Sind, declares that the commission for changing a rupee into copper coins is most onerous to the native, whose poor wage is some four rupees per month. Long before any Indian locality is addicted to the gold habit the last gold coin there current will have shaken down into its final resting-place. Of the 100 millions sterling of gold which India has absorbed in the last few years what traces remain? From the latest Report of Mr. R. W. Gillan, Comptroller of the Paper Currency, I take this table of visible gold doing money's work in India.

Gold Brought into Post Offices and Railways

	£
1908	2,403,000
1909	1,711,000
1910	399,000
1911	1,235,000

Mr. Gillan says, 'The inference appears to be unfavourable. If it stayed in circulation we should expect a progression in the figures; but of such progression there is no trace.'

The receipts of gold by the Treasuries are not less significant. Notwithstanding the huge sums imported during the past five years the increase is only 300,000*l.* in the fifth of the last five years. In 1907 the Government of India, replying to an appeal from the Bombay Chamber of Commerce that they should force more gold into circulation, declared that 'the Treasuries, the Post Office, and the Presidency Banks had co-operated in special measures to stimulate the circulation of gold . . . the great bulk of these issues promptly came back to the Banks and the Treasuries, and the experiment had ultimately to be abandoned.' Are we to rob the West of this invaluable and most costly machinery of exchange and credit in order that

[8] Report Silver Commission, 1875.

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Karachi merchants may sell bills one thirty-second higher, and in doing it destroy prices here in their objective markets and cut the throats of their own trades? It is the great rise of commodity prices in Europe that, in spite of a tampered currency managed by a few officials, has secured the recent prosperity of India, and not of India only but of all the other debtor nations, Australia, Canada, the Argentine, the Dakotas and Kansas during the past ten years. The concern of all these communities in the currency gyrations of the gentlemen of Simla is as intimate as that of London, Paris, and New York.

In New York the financial situation might require large reinforcements of gold not much later. In the panic of 1907 Europe had the gold to send New York. But to-day this is not the case. The prices of commodities in America certainly show all the symptoms of a credit-inflated currency. That great nation, too, is in one of its dangerous moods; it anticipates 'boom times.' Meanwhile Congress has done nothing whatever to amend a currency situation which in the event of trouble is incomparably graver than when the skies fell in 1907. The so-called 'Aldrich plan' at least lends itself to scientific and co-operative banking, but it is doubtful whether a Democratic President and Congress will accept it. I fear that before President Wilson leaves the White House America and Europe may be clamorous for all these millions of gold, gone so wantonly to India, and never to return.

It is on behalf of our Western commerce and finance that I have made my protest against this lavishing of our gold upon India's hoards. But no whit less deplorable is it in the interests of India herself. It has been the abundance of the new gold in every bourse in Europe and America sustaining credit and expanding all the forces of production and consumption that by advancing prices has so swelled the exports of India, magnetised to those higher prices. India is a great debtor community. The 'Home Charges' of her Government require from India that annual 'tribute' of 17 millions. India pays this vast sum not by exports of gold but by exports of her produce, wheat and jute and rice and indigo—a hundred things. The higher the prices these realise here the less the burden of the 'tribute.' The more of our gold she drains away from us to her hoards the lower our prices will be in the future, and thus the greater the strain on her exports. This tenpenny rupee which costs her people sixteen pence is England's shame, but will presently be India's undoing. In the future of India's competition with Japan for the market of China how can Bombay with a rupee which costs sixteen pence compete with Japan, her yen rated to her gold standard as the rupee at tenpence? Already Japan is paying prices for India's raw cotton which the Bombay mills, handicapped by a sixteen-penny rupee, cannot afford to pay. And, again, how will either India or Japan compete with China, her tael with which she pays the cheapest and the bravest labour in the world costing her as the rupee at ninepence? But here I embark upon the great silver problem which calls for consideration in a further chapter.

II

The Silver Question

In its larger aspect the Silver Question is the question of the exchanges with all Asia—with one-half of the human family. I do not propose to weary the reader with a problem complex and prolix, and which I elaborated in this Review less than four years ago.[9] The Silver Question is to-day about where I then left it. The currency of half the human race is still silver.[10] The small savings of the Asiatic from times prehistoric, and which in the aggregate amount to huge sums, are in silver. Before the Orient can buy the goods of the Occidentals the Orient must with its silver buy gold—that is, gold bills—with which to purchase our goods. Asia, in the terminology of Lombard Street, 'buys exchange' on London and New York. Thus the lower the price of silver the higher to these Asiatic myriads is the (gold) price of our goods. It may be admitted that this problem of the exchanges is repellent. In 1888 it was reported upon by perhaps the most distinguished Royal Commission of our time. A quarter of a century has elapsed. In view of developments in China and those revolutionary changes in Indian currency and finance discussed in the previous chapter, the consideration of the whole question afresh by a new Commission is important. The minds of the few men competent to undertake such an inquiry sink because of the immensity of the problem, but a joint Commission, Anglo-American, to consider the related problem of Prices, has been officially asked for by Washington, and would throw the much-needed light upon the crisis in the exchanges. I propose in these pages to exclude the exchange problem altogether, and to limit my consideration to the present silver policy of the India Office.

What is the currency policy of the Indian Government?

In 1878 a Bill was passed in Washington called the Bland Bill. The United States had a gold standard and immense sums

[9] 'The New Era in Economic History,' April 1909.

[10] Jevons wrote Wolowski that however wide the area of silver demonetisation, the value of gold would, measured in silver, certainly not rise more than 25 per cent. Its maximum rise has since been over 250 per cent. If Jevons could thus blunder how free from blame are the Sachems of the Simla Department.

of gold in currency, chiefly in the form of gold certificates. The Bland Bill enacted that nearly two million ounces of silver should be bought each month and coined into dollars of 412½ grains. The Indian rupee is 180 grains (a tola). The Bland Bill was flatly opposed to all the teaching of the professors. Our press here had exhausted its expletives in denouncing its absurdities. It was indeed a 'cowardly makeshift,' intended by its sponsors to bridge the world of trade over a catastrophic fall in the exchanges with Asia, the belief being at Washington that the nations would presently realise their peril, the peril for example of the present great gold drain to Asia, and would adopt some international plan by which a fixed exchange between the two precious metals might be secured. India to-day single-handed is, as we see, able to fix the exchange value of her currency at fifteen rupees to the sovereign. On the Potomac in 1878 intelligent men supposed that, by international action over a wide area, the exchange relation of silver to gold could similarly be fixed at 16 to 1. Were this possible, we had once again that priceless boon to the world's trade, a standard Money gauge. And had we but known it England's full subscription to this international settlement was the maintenance of an open Mint to silver (silver monometallism) in India. But we never did know it until too late. Had Jevons lived, had Bagehot lived, had not Mr. Goschen and Mr. Balfour been stampeded by the wonderful ignorance of the body politic, we in England might have done our share, by keeping India's mints open to silver, in restoring and fixing at their bullion points the world's exchanges.

To revert to the Bland Act, there is no need to say more than that this Act (slightly amended in the 'Sherman Act') was repealed at Washington in 1893, but was adopted on the recommendation of the Fowler Commission by the Government of India in 1899. And the Government of India is still operating their Bland Act; nor, though they blunder along from one absurd experiment to another, is any end in sight.

Does the Indian system at all differ from the Bland Act? Yes, in one important detail it does. The Bland Act required the open and above-board yearly purchase of about 20 million ounces of silver. Every miner, every merchant, every banker having exchange relations with Asia at least knew what were the dimensions of the demand of the U.S. Government for silver. The Bland demand was open and certain. The Government of India, on the other hand, has adopted a gold standard, but has left the great question of the amount of silver to be bought and coined into rupees, or whether any at all should be bought, to the whims and the conflicting views of one or two officials at Simla. Never was a 'system' so unsystematic. Had the Washington Congress given its Administration any such powers to elevate or to depress all the hundreds of millions of silver securities quoted on the world's Stock Exchanges they would never have heard the last of it. The 'corruptionist' record of such a Government would have been London town-talk.

Not a scintilla of suspicion has ever attached to any of India's officials. Not one has ever returned from India with any appearance of wealth made in silver speculations. The 'Treasury conscience' is there and thus splendidly in evidence. For the official who knows in advance of his fellows the intentions of the Government of India—whether that Government intends to purchase or equally to 'stay out' of the silver market—the opportunity presents itself of indefinite enrichment. Such knowledge is an actual blank cheque on the world's assets handed to a poor Indian official, his salary a few thousand rupees per month. It is splendid that her Civil Service has come through unscathed.

A short explanation of the operations of the silver market is necessary. The production of silver from all the mines of the world in 1911 was 238 million ounces. Of this the industrial demand, chiefly by silversmiths, for this beautiful metal absorbs 156 million ounces.[11] This industrial absorption may be regarded as a fairly fixed amount. In years of good trade a little more; in lean years a little less; but just as with cotton, so silver also is the raw material of a highly skilled and organised trade. If silver reverted to the old price (before 1873) of five shillings per ounce the silversmiths' demand would probably be much what it is at half-a-crown an ounce. Thus the monetary demand for silver falls upon a market supply of some 80 million ounces only. This may be further narrowed by the annual demand of our Mint for about 15 million ounces and by about an equal demand in the United States. The Mint here buys its silver at the market price, say 28*d.* an ounce, coins it into shillings, and sells these shillings here, but especially in the Nigerias and West Africa, at the issue price—66*d.* I could, were it worth while, earmark considerable further demands for silver by foreign nations which are regular; but I content myself with saying that it is into a silver market reduced to less than 50 million ounces that the colossal and problematic demand of the Government of India comes.

In 1906 and 1907 the India Office purchased nearly *150 million*

[11] Report of the U.S. Director of the Mint, 1911.

ounces of silver, and therewith coined about 400 million rupees.[12] Is it any wonder that, subjected to this prodigious demand, the price of silver rose to 32½*d.*? Had the export trades of China at that time been at all what they have been in the subsequent years, silver under a demand so enormous might well have risen to 40*d.* per ounce. Then, having in this way driven up the price of silver (in August 1907) to 32½*d.*, the Indian Government next stays out of the market during 1908, and deprived of this predominating demand the silver market falls in December 1908 to 22*d.*—the greatest fall, this, in all the history of that precious metal. Now the mines which produce silver are more widely distributed than are gold mines, and they are the greatest gambling counters on our scattered Stock Exchanges from Adelaide to Montreal. The very fluctuations in the price of silver, and thus in the dividends of these mines, constitute their attraction. Unlike gold, the price of which is 'fixed,' the silver product is subject to two unknown quantities—the yield of the vein, and the price of silver in the market. I take a silver camp like Cobalt in Ontario producing to-day some 30 million ounces a year. A fall of over tenpence an ounce (1907-8) would reduce the dividend of this single camp by a million-and-a-quarter sterling. The shares of such mines as Nipissing or La Rose are among the favourite speculations of Montreal and Toronto, even of New York and London. The fall in silver in 1908 probably cut in half the dividends of the Cobalt mines. Those operators who enjoy the exclusive knowledge of the intentions of the Government of India can simply make no mistake when speculating in these mining shares; either for the rise or even more for the fall. With these men it has ceased to be speculation; they can be certain in advance of the year's movements in these shares. In the case of Broken Hill in South Australia an advance of one penny per ounce in silver adds, or did add, 15,000*l.* a year to the profits of a single mine, the Broken Hill Proprietary.

Many of the silver-mining companies of Canada, the United States, and Mexico are careful to sell their product six months in advance. Thus they insure their industrial operations. By selling 'puts' and 'calls' they have protected themselves against fluctuations in the silver market. In November 1911 the writer was asked, as is usual, by some of the larger silver corporations to give an opinion as to the prospects of the silver market for 1912. The price of silver was at that time 25*d.* per ounce. The product of Cobalt and also of Mexico promised some expansion; on the other hand, the export trades of China, the payment for which takes silver off the market, were seriously interfered with

[12] The total purchases under the U.S. Bland Act for an equal period would have aggregated 42 million ounces.

by the revolution in China. The great and dominating factor was, of course, the possibility of the Government of India buying. But Calcutta was stacked with the rupees of 1907 still unissued. The Indian Government had a Commission considering the great rise of food prices in India, which rise was clearly the result of the inflation of the Indian currency by the 400 million rupees of 1906-7. Therefore the probability of India Office purchases, except on the smallest scale, seemed remote. My advice in November 1911 was that the mine-owners might safely offer the product of 1912 at a penny less than the then price (25*d*.). But it now transpires that in the spring of 1912 the great firm of Samuel Montagu & Co. were told in strictest confidence that the Government of India were about to buy 50 million ounces! That firm knows the location of every silver security in the world. That is their business. They knew that such a demand must sweep the silver market bare, put the price of silver up sixpence, and advance not only mining shares but the securities of a score of great industrial corporations—mills in Bombay selling yarns to China, Terminal and Dock Trusts in Shanghai and Hongkong, Rubber Plantation shares in Borneo and Sumatra. Here is a firm that has specialised in silver for fifty years, that has its agents in every corner of the globe; and this firm is entrusted under the seal of secrecy with official information of quite incalculable value. It would indeed be unbusinesslike in the highest degree did they not use the information for their own enrichment. Surely Messrs. Montagu are under no obligation not to buy Nipissing shares or Sulphide Corporation shares or 'Smelter' shares because the India Office had instructed them to purchase silver. The investment is for the India Office; the speculation, if indeed it can be called speculation, is for Messrs. Samuel Montagu & Co. To ask Messrs. Montagu to drop their business, which is dealing in silver, in return for a paltry commission of 7500*l*.—we rub our eyes for the innocence of such a proposal to such a firm. Of course, the great firm on the strength of this State secret would speculate world wide and on an enormous scale. The Cobalt or Broken Hill men sold 'their crop forward' at something less than the average price of 1911; who bought it if not the firm that knew prices must inevitably rise? And why should they not? If the firm deluded the public through their important monthly circulars into believing silver and silver securities would fall in 1912, such conduct would be highly reprehensible. But nothing of the kind was done. Had they on the other hand used their circulars to warn the mine-owners and the public of the inevitable rise they would have broken faith with the India Office.

De Beers diamond shares are a speculative security. The shares rise and fall with the world's consumption and price of diamonds. Suppose a buyer told his friend in strictest confidence that he was about to take six millions sterling of diamonds off the market and lock them up, would not De Beers diamond shares rise five points? Or suppose it was conveyed to a partner in Vickers, Limited, that our Admiralty had decided to buy more armour-plate than could be produced by all the armour establishments in the world, would Messrs. Vickers be honourably estopped from buying shares in Armstrongs or Cammells?

Messrs. Montagu were entrusted with a great secret commission, the operation of which has deeply influenced the very exchanges with Asia. Bombay mills alone sell yearly some 600,000 bales of yarn to China for Chinese taels. The rise in the price of silver gives the Bombay seller, say, 208 rupees in exchange for 100 taels, instead of 172 rupees. Is not such a foreword as this of Bombay profits most valuable to a firm which lives and moves and has its being in the exchange markets? If any firm is entitled to enjoy such a philosopher's stone, as well this firm as any other. Perhaps, indeed, better. But is this system of 'two-metallism' any longer tolerable? That is the question. Is this Bland Act for India to be in perpetuity operated after this secret fashion, whether by Christians or Hebrews? Is the Government of India to convey any longer a great secret to a great firm, a secret which indemnifies the firm from any possible loss and enables Messrs. Montagu to absorb the profits of Cobalt and Broken Hill?

MORETON FREWEN.