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Gold, Silver, and India in Anglo-American Monetary Relations, 1925-1933

As Anglo-American relations during the inter-war years alternated between co-operation and conflict, the goal the two powers professed in the 1920s, of durable global economic and financial stability, proved tantalizingly beyond reach. Yet few will deny that relations between the United States and Great Britain were of greater import for the functioning of the inter-war world economy than those between any other pair of countries. Periods of close transatlantic co-operation, as in the mid-1920s, coincided with an expanding world economy and the stabilization of the European economies, while the chill which overtook relations towards the end of the decade coincided with a world-wide depression in incomes, employment, and trade.

The Anglo-American relationship has attracted the close attention of historians because of its wider significance for the inter-war world order. Most studies of the financial and monetary aspects of this relationship look mostly at Europe, however;[1] other parts of the world rate only an occasional mention. No doubt the First World War had been mainly a European war, and the war debts and reparations that loomed large over transatlantic relations were almost entirely European in scope. Likewise, not only was Europe more urgently in need of financial stabilization in the 1920s, it also promised larger rewards.

Yet Britain remained an imperial power between the wars, and US interests during the period extended beyond Europe. The US interest in the Far East (in Japan and China) is well known, but parts of the British empire also attracted its attention: the Caribbean colonies lying in the

[1] F. C. Costigliola, 'Anglo-American Financial Rivalry in the 1920s', *Journal of Economic History*, xxxvii (1977), 911-34 and *Awkward Dominion: American Political, Economic, and Cultural Relations with Europe, 1919-1933* (New York, 1984), and C. P. Parrini's older classic *Heir to Empire: The United States Economic Diplomacy* (Pittsburgh, 1963); other studies include C. S. Maier, *Recasting Bourgeois Europe* (Princeton, 1975); R. H. Meyer, *Bankers' Diplomacy: Monetary Stabilization in the 1920s* (New York, 1976); M. J. Hogan, *Informal Entente: The Private Structure of Cooperation in Anglo-American Economic Diplomacy, 1918-1928* (Columbia, 1977); D. P. Silverman, *Reconstructing Europe after the Great War* (Cambridge, Mass., 1982); and R. W. D. Boyce, *British Capitalism at the Crossroads, 1919-1932: A Study in Politics, Economics, and International Relations* (Cambridge, 1987).

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United States's natural sphere of influence, South Africa, the Malay states, and India. US efforts to draw South Africa away from London towards New York are well known;[1] likewise the US interest in Malayan rubber and its opposition to British schemes for restricting output in order to increase prices and dollar earnings.[2] In contrast, US interests in India prior to the sterling balances-empire preferences controversy of the 1940s are usually passed over in silence.

The United States developed a variety of economic interests in India between the wars. In the early post-war years, marked by a world-wide boom and an appreciating rupee, US officials sought adequate supplies of Indian raw materials at low prices. By the end of the 1920s, US investment was trickling into India, and the first multinationals were establishing a presence which expanded during the 1930s as trade controls were intensified. From time to time, US officials were also exercised by instances of pirated or unauthorized prints of Hollywood films being shown commercially in Indian cinemas.

The US government, backed by powerful domestic lobbies, had another more abiding interest in India during the inter-war years, owing to India's role as an importer and holder of precious metals (both gold and silver). Regulating the Indian private sector's absorption of gold was an important British objective in the 1920s, determined, first, by Britain's need to increase its dollar earnings, and, second, as Britain was an inflationist power between the wars, by the insight that Indian gold imports tended to arrest a world-wide boom.[3] Although not an inflationist power, the United States sympathized with British concerns in the 1920s about the depressive effect of Indian gold imports on sterling. The United States, where the silver-mining interests formed a powerful political lobby, was also keen to ensure that the Indian public continued to hold a part of its savings in the form of silver, and that silver coin remained in use in India's currency. When Anglo-American relations were warm, Britain tried to obtain US support for efforts to curb India's appetite for gold, frequently by highlighting the risks that it posed to the fortunes of silver. Conversely, for some years after relations cooled towards the end of the 1920s, Britain used the Indian silver card to strengthen an otherwise weak bargaining hand, and to force the United States to co-operate in the management of

1 R. Ally, *Gold and Empire: The Bank of England and South Africa's Gold Producers, 1886-1926* (Johannesburg, 1994), pp. 124-33; B. R. Dalgaard, *South Africa's Impact on Britain's Return to Gold, 1925* (New York, 1981); Costigliola, 'Anglo-American Financial Rivalry'.
2 Costigliola, 'Anglo-American Financial Rivalry'.
3 G. Balachandran, 'Britain's Liquidity Crisis and India, 1919-20', *Economic History Review*, liii (1993), 575-91 and 'Gold and Empire: Britain and India in the Great Depression', *Journal of European Economic History*, xx (1991), 239-70.

international monetary questions. Thus, unwittingly, India was drawn into the financial and monetary interplay between the two major powers of the inter-war world economy.

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The US interest in India's currency pre-dated the inter-war years. The rupee was on a silver standard until 1893, when the rapid depreciation of the metal (and of the rupee) forced the government of India to close its silver mints. The decision was preceded by a series of international conferences to discuss silver, at which Britain proved less keen than the United States to preserve silver's global monetary role. For many in the United States, the government of India's move against silver represented the repudiation by Britain of any interest in the stabilization of silver prices. Later events confirmed this judgement. As silver prices crashed in the wake of the Indian decision, and of countries such as Japan and Russia joining the gold standard, Britain remained indifferent to the plight of silver.[1]

Not for long, however. Thanks to the Indian peasant's presumed distaste for a currency lacking precious metal coins, the British decided, at the turn of the century, to put India on a gold standard, but with silver coins available on demand from currency offices in exchange for notes which the British hoped thereby to popularize.[2] This peculiar form of domestic convertibility left the Indian currency hostage to fluctuations in the silver market. So long as the price of silver remained low and the silver rupee remained unambiguously a token coin, the government of India could satisfy the public's demand for silver coins. But if silver became difficult to obtain or its price increased sufficiently to erode the rupee's token character, the government might find it a challenge to meet the demand.

Just such a crisis beset the rupee during the First World War, when Britain's worsening trade imbalance with the United States led to a crisis for its external finances, restricted India's imports of gold, and placed on silver the burden of financing its trade.[3] Whereas the world price of silver

1 P. L. Cottrell, 'Silver, Gold, and the International Monetary Order, 1851-1896', in *Britain in the International Economy, 1870-1939*, ed. S. N. Broadberry and N. F. R. Crafts (Cambridge, 1992), pp. 221-43; E. F. Crapol, *America for Americans* (Westport, 1973); M. G. Myers, *A Financial History of the United States* (New York, 1970), pp. 214-15.

2 The Indian currency system is best described in *The Collected Writings of John Maynard Keynes*: I: *Indian Currency and Finance*, ed. D. E. Moggridge and E. Johnson (London, 1971); on Indian currency developments in the 1890s, see A. P. Kaminsky, 'Lombard Street and India: Currency Problems in the Late Nineteenth Century', *Indian Economic and Social History Review*, xvii (1980), 307-28; D. Rothermund, 'An Aspect of the Monetary Policy of British Imperialism', *Indian Economic and Social History Review*, vii (1970), 91-107; S. Ambirajan, *Political Economy and Monetary Management, India: 1860-1914* (Madras, 1984); E. H. H. Green, 'Rentiers versus Producers? The Political Economy of the Bimetallic Controversy c. 1880-1898', *English Historical Review*, ciii (1988), 588-612.

3 In the five years preceding the war, 37% of India's trade surplus was liquidated by *private* gold

rose owing to rising demand and stagnating output, Indian silver prices rose disproportionately as the government monopolized imported silver to meet its increased currency requirements. The government of India was caught in a vicious circle. It needed larger quantities of silver to meet public demand and to stabilize the currency, but, by its purchases, it helped to drive up the price and increase silver's attractiveness as a hedge against inflation in the colony.

The instability of the Indian currency appeared to hinder the Allied war effort, as even war-related exports from India were delayed or restricted owing to the shortage of metal currency. A currency collapse, triggered by the failure to supply silver rupees on demand against notes, might end it altogether. Moreover, it would, as one official put it with some exaggeration, deal a greater blow to Britain's prestige in India than a military defeat, than even a 'German landing at Norfolk'. The post-war consequences of the fall, too, would be incalculable.[1]

Determined to avoid the collapse of the currency in India, the British applied for assistance to the US treasury, which held large, idle reserves of silver dollars. Only their release, British officials soon recognized, would simultaneously stabilize the Indian currency and the international silver market. Eventually, under the terms of the Pittman Act, passed on 23 April 1918, the United States agreed to sell up to 200 million ounces of standard silver to the government of India at a price of one dollar per ounce. In a striking acknowledgement of its inability to maintain the Indian gold standard introduced over US opposition in 1898, the British government agreed in return to place the rupee on a *de facto* silver standard, where it remained until silver prices crashed in 1920.[2]

Although the Pittman Act benefited the US treasury, it appears also to have earned for the US authorities the right to be advised privately about all Indian currency questions. Besides, Britain's financial dependence upon the United States after the war inclined its officials towards consulting with visiting US officials, as India's currency problems threatened to affect international monetary conditions. Thus, as India's convertibility crisis worsened in 1919 and threatened to drain large quantities of gold from the rest of the world, British officials confessed to the governor of the

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imports, and 9% by silver; these proportions were reversed during the war; Committee on Indian Exchange and Currency (Babbington-Smith Committee), 1920, *Memoranda and Evidence*, app. II to memo A by Lionel Abrahams, *Parl[iamentary] Pap[ers]*, 1920, xiv. 8; Reserve Bank of India, *Banking and Monetary Statistics of India* (Bombay, 1954), pp. 971, 981.

1 'Memorandum by Mr M. M. S. Gubbay ... Controller of Currency as to the Probable Effects of Inconvertibility', N[ational] A[rchives of] I[ndia, government of India], F[inance] D[epartment], A&F proceedings, no. Oct. 1918-1000-A, and Cook to Howard, 2 July 1917, ibid., no. Sept. 1917-584-A.

2 See G. Balachandran, 'Finance Orientalism? Britain, the United States, and India's Wartime Currency Crisis, 1914-1918', *South Asia*, xvi (1993), 89-106.

Federal Reserve Bank of New York, Benjamin Strong, who was on a visit to London, their inability to bring the situation under control.[1]

For some months, US officials had been seeking information from their British counterparts about the Indian currency situation, and the steps being taken to anticipate a crisis.[2] The United States was keen to lift its wartime embargo on the export of gold and to restore a free market, but was inhibited by the uncertainties created by the Indian demand.[3] The under-secretary of the treasury, Robert C. Leffingwell, exasperated at having to wait upon developments in India, wanted to make plans 'with a view ... to forcing [currency] reform upon [India] rather than let [it] absorb all the gold which she can take and thus increase the world shortage'.[4] Encouraged informally by officials at the Bank of England and the India Office, other US officials tried more realistically to persuade the British government to restrict the flow of gold to India.[5] Whitehall responded with a subtly worded declaration which refused to impose a 'unique disability' upon India, but confirmed that public opinion in London was 'strongly opposed' to the flow of gold to India and promised that the existing restrictions on its movement would be kept in place for several months.[6] Although some US officials misinterpreted the British declaration, it enabled them to lift the embargo on the movement of gold.[7]

Anglo-American consultations on Indian monetary affairs continued during the next few years. F. I. Kent, recently the director of foreign exchange at the Federal Reserve Board, was invited to appear as a witness before the Babbington-Smith Committee, set up in 1919 to advise the India Office about currency reform in India. US officials continued to support British attempts to move the Indian appetite for precious metals away from gold and towards silver, and themselves tried to use the payments for their trade to effect the switch. As Leffingwell noted shortly before the collapse of the post-war boom: 'Silver is a pretty poor sort of a reserve ... [and] it would be the height of stupidity for us to hold our silver while we are letting our gold go.'[8]

1 Strong's journal, 25 July 1919, F[ederal] R[eserve] B[ank of] N[ew] Y[ork, Strong Papers], 1000.3.

2 Cokayne to Strong, 2 May 1919, FRBNY C262.3; Strong to Jay, 18 Sept. and Strong to Cokayne, 23 May 1919, FRBNY 1115.2; Strong's journal, 23, 25 July, 13, 17 Sept. 1919, FRBNY 1000.3.

3 Strauss to treas. sec., 31 March 1919, U[nited] S[tates] N[ational] A[rchives], R[ecord] G[roup] 56, box 139, India General.

4 'Gold Miscellaneous', Leffingwell's remarks on Strauss's memo of 22 May 1919, USNA, RG 56, box 85.

5 Cokayne to Strong, 2 May 1919, FRBNY 1115.2; Strauss to Strong, 28 May 1919, FRBNY C262.3; Strauss to Montagu Norman, 19 Sept. 1919, USNA, RG 56, box 85.

6 Lever to Rathbone, 13 May 1919, FRBNY C262.3.

7 Strauss to Strong, and Strauss to Kent, 26 May, Strong to Strauss, 27 May and reply, 28 May 1919, FRBNY C262.3.

8 George Roberts's memo, 26 Nov. 1919, USNA RG 82, box 2459, fo. 551.1; Leffingwell to treas. sec., 4

The threat posed by India to the world's gold reserves eased after the summer of 1920, when the rupee collapsed under the burden of overvaluation and a world slump.[1] Partly as a result, but partly owing to, diverging perceptions of international economic problems, Anglo-American consultations about India became less frequent. India returned with a vengeance as a buyer of gold in the world market after 1922, and its enormous imports provoked comment in the United States[2] and from Montagu Norman, governor of the Bank of England, to Strong about their likely implications for sterling's ability to stay on the newly restored gold standard.[3] Not until the concerted and quasi-official Indian campaign for a gold standard in 1925, however, was the stage set for renewed Anglo-American collaboration to tackle India's monetary affairs. Far from being possessive about India, still Britain's most important colony, the Bank of England, even more than its New York counterparts, saw joint intervention as an aspect of the wider project Britain and the United States were undertaking at the time to restore sterling durably to the gold standard and monetary stability to Europe.[4]

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The Indian demand for a gold standard was of long-standing. Businessmen in India believed that only a 'pure' gold standard – by which they understood a system with gold coinage and functioning 'automatically' – would free Indian monetary affairs from Whitehall control. Clearly, in the light of the resolution of the Genoa conference of 1922 on the gold exchange standard,[5] initiated by Britain, and other efforts to conserve the world's monetary gold resources, the Indian demand was not practical politics in 1925. Yet British-Indian monetary policies during the preceding decade had aroused such opposition in India that the gold standard, in its mythical form, became a reflexive, self-assertive cry of the educated Indian middle classes. Inevitably, the Hilton-Young commission, set up in 1925 to

Feb. 1920, USNA, RG 56, box 139; Strauss's 'Memorandum for Mr Leffingwell', 1 Mar., Leffingwell to Strauss, 17 Feb., and to treas. sec., 12 Feb., and Strauss to Leffingwell, 24 Jan., 14 Feb. 1920 [whence the quotation], USNA, RG 82, box 302-10. For earlier consultations and the nervousness of the silver interests, see Strauss's 'Memorandum Concerning Silver', 25 Nov. 1919, USNA, RG 82, box 2459; and McGuire to Shepherd Morgan, 24 Nov. and Edward Brush to Strauss, 28 Nov. 1919, FRBNY C263.

[1] The episode culminating in the collapse of the rupee is discussed in Balachandran, 'Britain's Liquidity Crisis and India'.

[2] E.g., see the *New York Times*, 10 June 1923.

[3] Norman to Strong, strictly confidential letters, 24 June, 18 Sept. 1925, B[ank] O[f] E[ngland] OV 31/8 and L. V. Chandler, *Benjamin Strong: Central Banker* (Washington, 1958), pp. 322-3.

[4] For a periodization of Anglo-American relations between the wars, see D. C. Watt, *Succeeding John Bull: America in Britain's Place, 1900-1975* (Cambridge, 1984); American support for Britain's return to gold is discussed in Costigliola, 'Anglo-American Financial Rivalry', pp. 923-6.

[5] The gold exchange standard helped conserve the world's gold supplies by enabling international transactions to be financed using 'key currencies' such as sterling and the dollar.

recommend a way to stabilize the Indian currency, became a target of the Indian campaign, backed unexpectedly by the finance department of the government of India. Its officials joined India's 'monetary nationalists' in arguing that, in the long run, a gold currency would reduce the Indian demand for gold, promote savings and investment, and help to deepen the financial system. It placed before the commission its own plan for a gold standard with gold coins in circulation.[1]

The Indian demand for a gold standard, and the official backing it received, caused concern in London, especially as the Indian plan was effectively the work of Sir Basil Blackett, a distinguished treasury official until he became finance member of the government of India in 1922, who had possessed hitherto impeccable anti-gold credentials: he had opposed gold for India in 1920 and drafted the Genoa resolution on the gold exchange standard.[2] The India Office, determined to defend London's interests in any confrontation with the government of India, but also having a score to settle with Blackett, tried at first to rope the treasury into the battle against the Indian plan,[3] which left Otto E. Niemeyer, controller of finance at the treasury, aghast. Although the plan filled him with 'pity and fear', as it was bound to endanger the international gold standard, indeed 'end [it] altogether',[4] none the less he felt that for the treasury to be drawn into 'overt action' against it would be 'bad tactics'. The treasury should work behind the scenes, while the Bank of England undertook the 'burden of direct opposition'.[5] The treasury also decided that the task of energizing the US treasury department, in particular the secretary of the treasury, Andrew Mellon, against the Indian plan should be left to the Bank of England and the Federal Reserve Bank of New York.[6]

Thereafter, the Bank of England became the key player in the international campaign against an Indian gold standard. In this the bank was

1 See H. Denning, 'A Gold Standard for India', R[oyal] C[ommission on] I[ndian] C[urrency and] F[inance], *Parl. Pap.*, 1926, xii, *Memoranda and Evidence*, ii., app. 5, 43-50. Denning was the controller of currency in the government of India.

2 S. K. Howson, 'Hawtrey and the Real World', in *Keynes and His Contemporaries*, ed. G. C. Harcourt (London, 1985), pp. 155-9; Hawtrey, draft article for *Banker*, May 1969, Hawtrey Papers, Htry 8/3 [Churchill College Archives, Cambridge]; for Blackett's 1920 views, see Balachandran, 'Britain's Liquidity Crisis and India', p. 586.

3 On the uneasy relationship between the India Office and the government of India's finance dept. during these years, see G. Balachandran, 'Towards a '*Hindoo* Marriage'? Anglo-Indian Monetary Relations in Interwar India, 1917-1935', *Modern Asian Studies*, xxviii (1994), 615-47.

4 Niemeyer to Blackett, 22 Dec. 1925, Hawtrey Papers, Htry 1/3/2; Niemeyer to Blackett, 2 Feb. 1926 [Public Record Office], T[reasury Records] 176/25B.

5 Niemeyer's note, 26 Feb. 1926, T 175/25B; the treasury's reaction to the Indian gold standard plan is discussed in G. Balachandran, 'Britain, USA, and the Indian Gold Standard', *Economic and Political Weekly*, Sept. 1989, pp. 2,015-23.

6 Hilton-Young to Norman, 10 Feb. 1926, BOE OV 56/85; Norman to Strong, 13 Feb. 1926, FRBNY C261.

aided on the inside, as it were, by the chairman of the Hilton-Young commission, Edward Hilton-Young (later Lord Kennet), a minor Tory politician and editor of the *Financial News*, and by its leading British member, Henry Strakosch, a close friend of Norman and a determined campaigner for the gold exchange standard since the days of the Genoa conference.[1] Both briefed Norman regularly on developments in India while travelling to hear evidence. By the time Strakosch's tour of India ended in January 1926, he was able to assure Norman that a majority of the commission would reject the plan for a gold standard and that he was 'seeking about for some scheme which is between a gold circulation and a gold exchange standard'.[2]

Norman, however, was not willing to take any chances; his efforts to mobilize opinion against an Indian gold standard soon crossed the Atlantic. As the plan would make the government of India's silver reserves redundant, and as this silver was sold on the world market, the price of silver could be expected to fall. This development might, in turn, encourage the liquidation of private Indian stocks of silver and their replacement with gold, thus setting at nought many years of Anglo-American efforts to persuade Indians to hold silver rather than gold. In the process, not only would the Indian demand for gold resulting from the adoption of the gold standard exceed the £105 million Blackett had envisaged, but silver, in which the Americans had a major interest, would also be gravely affected. Already aware of Strong's reservations about Blackett's plan, Norman needed little prodding from Hilton-Young to seek US intervention against it.[3] Norman's main concern, as he told Strong while asking him – and, through him, the prominent financiers J. P. Morgan, Albert Strauss, and Paul Warburg – for 'help', was to avoid a strong minority report which the government of India might feel under pressure to accept.[4] Warning Strong of the dangers of such an outcome for the 'gold standard in Europe and England ... [and for the] United States ... owing to [its] interest in [the] stability of Europe ... and in ... silver', Norman added that 'American evidence' was essential, because the commission's Indian members would not 'believe ... Englishmen'. He proposed that a high-powered US delegation should visit London to give evidence before the commission, and when Strong seemed reluctant, threatened him with the alternative of 'several Indians shepherded by Hilton-Young and a few others' turning up

1 R. S. Sayers, *Bank of England, 1896-1939* (Cambridge, 1976), i. 153 n., 202-3.

2 Norman to Strong, 2 Feb. 1926, BOE G 3/185 and same to same, FRBNY 1116.6.2; Norman to Hornsby, 9 March 1926, BOE G 3/185.

3 Norman, diary entry of 9 Feb. 1926, BOE ADM 20/15; Norman to Strong, 2 Feb. 1926, FRBNY 1116.6.2; cable, 13 Feb. 1926, FRBNY C261.

4 Norman's cable, 13 Feb. 1926, FRBNY C261.

in New York. Given 'the headlines ... silver producers ... politicians and even the unfamiliarity of your public with native Indians, I should fear the results'.[1]

Strong had received the details of the Indian plan for a gold standard along with an appeal for help in financing it directly from Blackett, who claimed that it would eliminate India as a 'continual sink of gold'.[2] As the appeal reached Strong in December 1925, shortly before Norman visited him in New York, the two central bankers were able to discuss it in detail together.[3]

Despite Strong's sympathy towards Blackett's wish to put India stably on a gold standard,[4] Norman gained his ear. During a visit to London in 1919 at the height of the Indian currency crisis, Strong had picked up the contemporary cosmopolitan wisdom regarding the Indian native and his fondness for precious metals. Although India had become prosperous thanks to British rule, its people were not spending export earnings on improving the 'standard of living'; instead, Indians hoarded their wealth. Silver and gold were 'converted into ornaments' which were 'given as wedding presents, [to be] worn by ... Indian women and usually buried with them when they die'. Silver coins were 'actually concealed or buried by the native farmers', and 'accumulated in great stores by the native princes'. The government of India's efforts to promote a paper currency had failed, because

> In that hot climate the Indian labourer wears little more than a loin cloth and then a loose garment of some kind, and when he is at work in the fields he is almost literally naked, and his wealth is carried in coin in this loin cloth, which becomes soaked in perspiration. Frequently he must wade deep streams in going to and from work, and he gets soaked in the rains. The result is that paper money would literally become destroyed, and the money he carries on his person must be metal.[5]

Strong also fancied his knowledge of India, having stopped there during a world tour in 1920 and bargained with jewellers in Darjeeling for 'good examples of where hundreds of millions of gold and silver disappear in this vast sink'.[6]

[1] Norman to Strong, 9 March 1926, BOE G 3/185 and same to same, cable, 8 Mar. 1926, FRBNY C261; Norman was also nervous that Blackett's plan might frighten 'silver producers and therefore the politicians of Washington' into an 'anti-British offensive'; see Norman to Hornsby, 9 March 1926, BOE G 3/185.

[2] Which 'she will certainly remain as long as you refuse her gold in circulation': Blackett to Strong, 3 Dec. 1925, FRBNY 1111.1.

[3] Norman to Strong, 9 March 1926, FRBNY 1116.6.2.

[4] Strong to Blackett, 21 Jan. 1926, BOE OV 56/84.

[5] Strong to Jay, 16 Sept. 1919, FRBNY C262.5.

[6] Strong to Harding, 23 Oct. 1920, FRBNY 1000.4; ironically enough, India was a net exporter of gold

Hence Norman found Strong a more sympathetic listener than did Blackett. Strong was impressed, in particular, by the implications for the US mining industry of India's going on the gold standard. He expected the price of silver to halve and was 'most disconcerted' by the views of Cornelius Kelly, the president of the American Silver Producers' Association:

> The effect of losing the Indian market for silver would be to add roughly 2 cents a pound to the cost of copper for those mines which have silver production as well. Some of them would be obliged to close. For the lead and zinc industry it would be a calamity. But it would really extend beyond that. The refining is largely conducted in ... New York, New Jersey, Maryland, and along the Atlantic seaboard. The loss of the Indian market ... would close the silver mines of Canada, United States and Mexico (except the most profitable), would close some copper mines, and would greatly increase the cost of lead and zinc, and affect the tributary industries, particularly refining. It would raise a political question of the first order.[1]

Strong preferred to take the long-term risk of India's remaining a 'sink' for precious metals than the short-term risk of the immediate collapse of silver. As he wrote to Blackett: 'I fear the consequences of a program calling upon the Federal Reserve System or American bankers to join in financing a monetary reorganization in India, the effect of which would be to throw tens of thousands, possibly hundreds of thousands of people out of employment and seriously cripple or destroy two or three important industries in this country.'[2]

However, Strong suggested he was not keen to weigh in openly against Blackett, because his intervention in a 'delicate political question' between Britain and India might be resented as 'special pleading of our own interests'. Besides, as he told Norman, his appearance might strengthen the impression that 'there is some secret program in existence upon which you and I are working and which involves interference with monetary and political affairs in other countries of a sort which is resented.'[3] But he responded to Norman's plea for help in other ways. He rounded up witnesses for the Hilton-Young commission, though not US silver producers, who might 'stir up' the mining interests, give the subject a 'political turn', and 'plunge us in all sorts of difficulties'.[4] As J. P. Morgan, fearing publicity and 'disliking' to 'pose as [an] economist', refused to appear as a witness and agreed only to submit a written rebuttal of Blackett, Strong

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during these months.

1 Strong to Blackett, 21 Jan. 1926, BOE OV 56/84; Strong to Norman, 27 March 1926, FRBNY 1116.6.1.

2 Ibid.; Norman to Blackett, 27 Jan. 1926, BOE G 3/185.

3 Strong's cable, 5 March and 1 April 1926, FRBNY C261; Strong to Norman, 1 April 1926, FRBNY 1116.6.1.

4 Strong to Norman, 27 March 1926, FRBNY 1116.6.1; Strong to Kelly, 9 May and reply, 12 May 1926, FRBNY C262.5.1.

advised Norman to invite the vice-president of the National City Bank of New York, George E. Roberts.[1] Strong also discussed the question with bankers and economists, and commissioned studies of the effects of an Indian gold standard.[2] He justified his interest in Indian currency affairs by its international significance: '[The] economic and political consequences [of India abandoning silver] would be too serious. If Congress became alarmed, it would likely result in legislation controlling all foreign loans, and might close our investment markets to the rest of the world. We cannot afford that; neither can Europe. So I want the information necessary for a good strong effort to stop it.'[3]

Strong's seeming reluctance to appear as a witness before the Hilton-Young commission may have been a ruse adopted to silence his critics.[4] Whereas the Federal Reserve Board resented the New York Reserve Bank and its cosmopolitan governor's high international profile, and expected him to clear in advance all external initiatives, Strong feared that such consultations would only result in needless publicity. By fuelling domestic controversy, it would compromise US interests and vitiate the climate for overseas investment. Hence, while keeping the board in the dark, Strong kept Mellon abreast of Indian currency developments and their likely implications. Mellon shared Strong's view of the United States's external economic obligations and the need for discretion in handling the Indian silver question. Therefore, Mellon advised him to ignore a Federal Reserve Board ruling that restrained member Reserve Banks from employing experts to carry out special studies without prior authority, and to carry out his studies on behalf of the treasury. In the end, Mellon was impressed enough by the dangers from India's jettisoning silver to authorize Strong to visit London as a 'Fiscal Agent of the Treasury', leaving it to him to decide whether or not to appear before the Hilton-Young commission.[5] Strong

[1] Norman to Leffingwell, 22 Feb. 1926, BOE G 3/185; Leffingwell to Morgan, 5 Feb., 11 Feb. and Morgan's reply, 5 March 1926, BOE OV 56/85; Norman to Strong, 22 March 1926, FRBNY C261; Strong to Norman, 27 March 1926, FRBNY 1116.6.1; at Strong's suggestion, Norman asked Strakosch to 'see Roberts quietly ... the day before his appearance': Norman to Strakosch, 16 April 1926, BOE G 3/185.
[2] Strong to Norman, 1 April 1926, FRBNY 1116.6.1.
[3] Strong's memo for Burgess, 6 March 1926, FRBNY C262.5.1.
[4] Strong suggested to Norman that he would feel easier about intervening if G. Vissering and H. Schacht, heads respectively of the Belgian and German central banks, were invited as witnesses. Both central bankers were willing, but neither could manage an appearance – Vissering due to the General Strike, and Schacht, who supported the Blackett plan, because the commission's timetable did not suit his plans; Norman to Hilton-Young, 7 April, Norman to Schacht, 10, 26 April, and Norman to Vissering, 10 April 1926, BOE G 3/185; Hilton-Young to Norman, 9 April, Schacht to Norman, 17 April, Norman to Schacht, 19 April, and Vissering to Norman, 4 May 1926, BOE OV 56/85.
[5] Mellon also took the responsibility of clearing Strong's visit with the Federal Reserve Board; Strong to Norman, 29 March 1926, FRBNY 1117.7; Strong's reference note 'India', 15 April 1926, FRBNY C262.5.1; Jay to the treas. sec., 13 July 1926, 012.3; Harrison to Winston, 18 June, Winston to Strong, 22 June, Mellon to Crissinger, 15 July 1926, 012.6; Winston to Jay, 15 July and reply 16 July, Strong to

travelled to London accompanied by two experts – Professor Jacob Hollander of Johns Hopkins University and Professor O. M. W. Sprague of Harvard University – and armed with reports of studies of the effects of an Indian gold standard on silver and the allied mining industries.[1]

Strong's delegation was London's trump card in its battle against a gold standard in India. As the star witness before the Hilton-Young commission, Strong's appearance was prepared with meticulous care. Norman supplied him with statements by the other important witnesses and the questionnaire he had received from the commission. Hilton-Young sent Strong a list of questions which he had drawn up with Norman and Strakosch and a 'highly confidential note' reviewing currency reform options in India.[2] While in London, Strong's delegation was also 'carefully coached as to the various points in [*sic*] which susceptibilities might be aroused'.[3]

The Strong delegation was the last witness heard by the commission. Spread over four full days, its testimony consisted of the longest series of statements by any witness with the exception of Blackett who, as the finance member of the government of India, was the first witness. As expected, Strong's team emphasized the dangers both to India and the world of India's abandonment of silver and adoption of a 'pure' gold standard.[4] Ironically, given the United States's opposition to the proposals agreed at Genoa, Strong recommended a gold exchange standard based both on sterling and the dollar, with silver circulating as a token currency.[5]

* * *

On the face of it, Strong's trip to London to give evidence before the Hilton-Young commission was a spectacular success. Although Strong was already 'groggy' by the time he took the stand, Strong earned the

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Winston, 3 Aug. 1926, USNA, RG 56, box 81; Chandler, *Benjamin Strong*, pp. 254, 356-9.

1 For the silver reports, see 'Summary of Reports Submitted by Mr Arthur Notman and Captain H. A. C. Jenison', RCICF, *Parl. Pap.*, 1926, xii, *Minutes of Evidence*, Q. 15,238, sec. xvii; Strong's delegation also included Robert Warren of the FRBNY.

2 Strong to dep. gov., BOE, 30 March 1926, Anderson to Strong, 30 March, 1 April 1926, FRBNY 1117.1; Norman to Strong, 5 March 1926, FRBNY 1116.6.2; for the list of Hilton-Young's questions, see FRBNY 1116.6.3 and for a copy of his 'highly confidential note', see C262.5.1a.

3 Strong to Harrison, 5 May and Strong to Jay, 2 May 1926, FRBNY 1000.7.

4 See RCICF, *Parl. Pap.*, 1926, xii, *Memoranda and Evidence*, pp. 274-330, for the statements of the Strong delegation.

5 RCICF, *Parl. Pap.*, 1926, xii, *Minutes of Evidence*, QQ. 15,229-32, 15,311, part iv; in the winter of the following year, Strong made an astonishing discovery that Strakosch 'strongly favoured' the gold exchange standard: 'I pooh-poohed this a great deal and told him that I was not anxious to see the Federal Reserve Bank, for instance, in a position where any untoward development might result in ... alarming demands for gold from ... countries which ... lost their heads. This business of holding the bag for the world was all right when the world was tranquil, but became difficult when it was in disorder': Strong's 'Memorandum for Mr Harrison: Regarding Discussions in London', 24 Dec. 1927, FRBNY C252 Genl.

gratitude of his London hosts for delivering the '"knock out" blow'.[1] The commission turned down Blackett's gold standard proposal. Despite Strong's intervention, however, Hilton-Young's hope of a unanimous report was not realized.[2] The danger Norman had feared, of the commission's dividing along 'racial' lines, was averted when three of the Indian members sided with the five British members who, as expected, voted in a block against Blackett's plan. It was left to the fourth Indian member, Purushottamdas Thakurdas, a respected Bombay businessman and seasoned campaigner on monetary issues, to submit an alternative report calling for a gold standard.[3] Although he offered a platform to which India's 'monetary nationalists' could rally, there was little likelihood that the government of India would act upon it.

But if Strong's trip was intended to save silver from collapse, it ended in failure. As well as rejecting a gold standard, the Hilton-Young commission recommended the phasing out of the silver rupee and the gradual liquidation of the government of India's silver reserves.[4] This sudden and unexpected decision, which contradicted the arguments financiers in London had marshalled against Blackett, has left little in the way of a paper trail. The commission may have come round to the view expressed by John Maynard Keynes and others that the future of silver as a monetary metal was bleak irrespective of decisions taken in India, and underestimated the risks to silver from the government of India's abandonment of silver coinage. But the proposal came as an unpleasant surprise to Strong who, despite having discussed the draft report with his hosts in some detail, was kept in the dark until the report's publication.[5] Although he attempted to put on a brave face by conceding India's right to replace silver gradually with gold and assuming that the government of India would, in its own interest, help to preserve the silver market, Strong remained defensive about the commission's report and was nervous about the likely response in the United States to its recommendations concerning silver.[6] As he wrote to Pierre Jay, president of the Federal Reserve Bank of New York:

[1] Strong to Jay, 2 May 1926, FRBNY 1000.7; Norman to Strong, 19 May 1926, FRBNY 1116.6; Hilton-Young to Strong, 28 Sept. 1926, FRBNY 1111.3; Strong to Jay, 15 May 1926, FRBNY C262.5.1.

[2] Strong to Jay, 15 May 1926, FRBNY C262.5.1.

[3] The other contentious issue before the commission was the rupee's exchange rate. Thakurdas and Indian nationalists wanted it to be pegged at the pre-war 16d., while the commission recommended the prevailing 18d.

[4] RCICF, *Parl. Pap.*, 1926, xii, *Report*, paras. 46-50, 69-71; 'The Indian Currency Commission Report as Affecting Silver', by R. Kershaw, 12 Oct. 1926, T 176/25B.

[5] Strong to Jay, 9 Aug. 1926, FRBNY Correspondence files; Strong to Jay, 11 Aug. 1926, C262.5.1.

[6] Strong to Jay, 11 Aug. 1926, FRBNY Benjamin Strong-European Trips-Correspondence Files; Strong to Jay, 11 Aug. 1926, FRBNY C262.5.1.

In case you or [Gerrard] Winston [treasury under-secretary] feel that the report is not satisfactory ... I think we have succeeded in getting a reasonable result, which should satisfy the silver interests; but if they expected something utterly unreasonable, naturally they will not be satisfied, nor would I feel capable of satisfying them. I hope that you and others agree with me. If the matter requires further and more careful study, I suggest that you ask Professor Sprague to examine the report ... it would be desirable to avoid too much publicity, but if that cannot be avoided, I would like ... to see any action suspended until I return, so that I will have a chance to examine any material that is prepared for public use.[1]

* * *

The effects of the Hilton-Young commission's recommendation on silver soon became apparent. From 1928 the government of India began to sell large quantities of silver in the world market, over 90 million ounces by 1930. This was, according to the India Office's bullion broker, a major factor behind the steep fall in the price of silver during these years. The Indian move also evoked a flurry of protests from the United States.[2] But the India Office and the treasury refused to accept responsibility, and alleged that the contrary view, that London was responsible, 'which was too preposterous to merit serious consideration', came from 'interested American quarters'.[3]

Although in stark contrast with its former solicitude for US interests and the plight of silver, the change in the British attitude is not difficult to comprehend. By 1927-8, both co-operation to reconstruct European finances and the global payments system, and the United States's enthusiasm for involvement in overseas financial affairs had begun to wane,[4] and by 1930-1, the US retreat from internationalism was unmistakable. Not only was the time for bankable gestures now past, the conflict underlying Anglo-American financial relations between the World Wars began to surface. Even the Bank of England, normally more eager than the treasury to please US financiers, caught the prevailing mood: its response to the New York Federal Reserve Bank's tentative moves for co-operation to check the slide

1 Strong to Jay, 11 Aug. 1926, FRBNY C262.5.1; his colleagues in New York and Washington were loyal and supportive of Strong in his disappointment; see Burgess to Winston, 9 Aug., Winston to Strong, 19, 30 Aug. 1926, 012.6; Winston to Sprague, 25 Oct. 1926, USNA, RG 56, box 91, and boxes 132-4.

2 Kitchin's memo, 'Silver supply, demand and prices', 25 Feb. 1931 [British Library, Oriental and] I[ndia] O[ffice Collections] L/F/6/1172, fo. 169; US Congress, 'Interim Report and Recommendations of the Committee of the Foreign Relations Committee on Trade Relations with China and Causes and Remedies for Depressed Conditions for Commerce', Feb. 1931, T 160/547/F32420/1; Norman's note of conversations with Kisch, June 1927, BOE ADM 20/16; for details of Indian silver sales, see NAI, FD, files 4(27)-F-1929 and 17(71)-F-1933.

3 Kershaw to Schuster, 28 Jan. 1931 as sent, and in first draft, IO L/F/6/1172, fo. 371.

4 Siepmann's notes of 1 Sept. 1927, BOE ADM 25/14; more generally, see B. J. Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression* (New York, 1992), pp. 208-16.

in silver combined polite interest with inaction.[1] At the same time, officials at the treasury, who were aware that the silver producers formed a well-organized and powerful lobby in Washington, were preparing to use Indian silver to strengthen a weak hand in their financial relations with the United States. Decisions about Indian silver, formerly hostage to co-operation, became hostage to the measured Anglo-American financial confrontation.

Thus, despite earlier claims of a wish to safeguard the value of Indian savings held in the form of silver, and despite the government of India's interest, Britain rejected the US call for an international conference to stabilize the price of silver. In public, Britain proclaimed that as the fall in silver prices was part of the world-wide collapse in commodity prices owing to the 'mal-distribution of gold', only a conference on the distribution of international liquidity would serve any useful purpose.[2] Privately, however, the treasury argued that taking part in a conference devoted only to silver would be a tactical error. It told the India Office that the plight of silver should be used to force the United States to discuss more general issues governing liquidity and claimed that the tactic was already yielding results: the United States was making unofficial 'approaches', and official proposals could be expected soon, but only if nothing was done in the meantime to 'fatally prejudice ... our chances' of starting discussions on a 'proper basis'. Hence the treasury asked the India Office to advise the government of India not to suspend its sales of silver nor to express the slightest interest in plans for a silver conference.[3] The advice was conveyed in an India Office telegram drafted by the treasury. Not wishing, however, to offend the government of India by suggesting 'too close a consolidation of interests' between it and the British government, the treasury suggested that the India Office should make 'necessary adjustments' to the draft, to distance the two departments, before sending the telegram to New Delhi.[4]

In addition to silencing the government of India, the British government also exerted itself to ensure both that British businesses should not endorse the US proposal for a silver conference[5] and that US proposals for

[1] Crane's note for Harrison, 5 Nov. 1930, and the attached copies of communications exchanged with the BOE, FRBNY C263.

[2] Treasury brief for a House of Lords question, 30 Sept. 1931, IO L/F/6/1181; Peel's reply to Hunsdon in the House of Lords, 30 Sept. 1931, T 160/547, fo. 3420/2.

[3] Sec. state to viceroy, private tel., 19 Feb. 1931, and Leith-Ross to Kisch, 17 Feb. 1931, IO L/F/6/1173, fo. 392; Kershaw to Schuster, 28 Jan. 1931, IO L/F/6/1172, fo. 371; Benthall, diary entry, 7 June 1931, Centre for South Asian Studies, Cambridge, Benthall Papers, vii; 'Silver', by Taylor, n.d., NAI, FD, file no. 2(6)-F-1931.

[4] In the event, the treasury draft was sent unchanged; sec. state to viceroy, private tel., 19 Feb. and Leith-Ross to Kisch, 17 Feb. 1931, IO L/F/6/1173, fo. 392.

[5] Leith-Ross to Addis, 31 March, Anderson to Leith-Ross, 8 April, Leith-Ross's note, 15 June, Leith-Ross to dep. gov., BOE, 31 July 1931, Siepmann to Leith-Ross, 10 Aug. 1931, T 160/547, fo. 3420/2.

stabilizing the price of silver should be ignored, despite the government of India's interest in them.[1]

However, while thwarting US efforts to secure the stabilization of silver on the cheap, the British government wished to avoid 'antagonizing' the United States at the risk of an unregulated conflict. Therefore, the British government refused in 1931 to allow the government of India to raise the import duty on silver introduced in 1930 to 'enable' it 'to argue that it was safeguarding the value of Indian ... silver holdings'.[2]

When Britain tried in 1933 to re-inject some warmth into Anglo-American financial relations, India's silver policy was adjusted once more. By taking the dollar off the gold standard in April 1933, the United States turned the tables on Britain and made the treasury nervous about the possibility of 'radical exchange manipulation'.[3] Anxious to avoid competitive depreciation, which, besides directly eroding Britain's reviving trade, might force the 'gold bloc' countries (Belgium, France, Italy, the Netherlands, and Switzerland) off the gold standard, British officials began to look for ways of persuading the United States to stabilize the dollar.[4] Following informal consultations with some of President Franklin Delano Roosevelt's advisers, British officials resolved to improve the chances of monetary co-operation by making a unilateral gesture; perhaps inevitably, it took the form of an offer to restrict the government of India's sales of silver to a maximum of 35 million ounces per year between 1934 and 1938.[5]

The offer failed, however, to yield the expected result. Roosevelt refused to stabilize the dollar, thereby signalling the resumption of competitive depreciation and dashing Britain's hopes for more orderly management of exchange rates. There is some evidence, however, that British officials hoped for another chance to play the silver card when Roosevelt launched his silver purchase programme the following year. Apart from raising the price of silver, Roosevelt's unorthodox experiment helped to expand the US economy. In public, the British government welcomed the rise in the price of silver because of its effect on the value of Indian savings. But in private, and unknown to the government of India, it may have attempted to bring the experiment to an end.

The British opportunity arose out of a currency crisis in China. When

1 Kershaw to Schuster, 28 Jan. 1931, IO L/F/6/1172, fo. 371; Benthall, diary entry, 7 June 1931, Benthall Papers, vii.

2 Niemeyer's 'Notes on a conversation with Mr Kisch', 24 April 1930, BOE ADM 16/5; sec. state to viceroy, 19 Feb. 1931, IO L/F/6/1173, fo. 392.

3 Unsigned note, n.d., probably by Phillips, written in 1933, T 175/74.

4 Hopkins's note, 31 March 1933, on Phillips's memo, 'Exchange Equalization Account', 27 March 1933, T 175/17; 'United States Monetary Policy', memo by Phillips, n.d., T 172/2081.

5 US President's statement, 21 Dec. 1933, T 160/950, fo. 13798/1; H. D. Starr's memo, 'London Silver Agreement', 26 May 1933, FRBNY C264.

the rise in world silver prices occurring in the wake of Roosevelt's experiment drove China's silver coinage out of circulation, large amounts of Chinese silver found their way to the United States, despite a ban on exports. Desperate to augment supply, hold down silver prices, and preserve the currency, the Chinese authorities turned to the government of India for help. Even though Indian silver holdings were now regarded officially as an 'embarrassing incubus', the treasury in 1934 turned down China's request.[1] An obvious explanation for this decision was Britain's wish to see China's currency problem become acute enough to compel it to leave silver. The treasury may have hoped that the increase in the supply of silver, as it became demonetized in the last major country on the silver standard, would make Roosevelt's price stabilization scheme so expensive as to force him to abandon it. And it might also persuade the United States to reconsider its policy on dollar stabilization, and persuade China to peg to sterling.[2]

* * *

Their joint campaign against an Indian gold standard has remained a neglected episode in the history of Anglo-Indian monetary relations between the wars. Two significant points are worth underlining here. First, despite the United States's strong preference for the gold standard in the 1920s and its opposition to the gold exchange standard, it collaborated with Britain to defeat plans to establish a gold standard in India and helped promote an exchange standard in the colony. Second, despite London's nervousness about US financial inroads into the empire and about South Africa and Australia gravitating towards New York, it was keen to see the United States playing a role in Indian monetary affairs.

Britain succeeded in mobilizing the United States against an Indian gold standard on the strength of fears about the latter's effects on silver. However, the state of the silver market was of less concern to it in 1926 than the likely US response to a decision by the government of India to abandon silver at one go. US overseas lending was still thought to be crucial to Britain's external economic objectives, and however uncertain the US commitment to Europe, there was little to be gained from being insensitive towards the realities of US politics. As Norman hinted in his

1 'Pittman silver', Bowley memo., n.d. [Feb. 1933], T 160/8, fo. 260-3; draft report of the China committee [1934], pt. 2, T 177/21.

2 Such at any rate was the American suspicion. See J. M. Blum, *From the Morgenthau Diaries: Years of Crisis, 1928-1938* (Boston, 1959), i. 204-28; for other accounts of the Chinese crisis, see F. Leith-Ross, *Money Talks: Fifty Years of International Finance* (London, 1968), ch. 15; M. Friedman, 'FDR, Silver, and China', in M. Friedman, *Money Mischief: Episodes in Monetary History* (New York, 1992); V. J. Rothwell, 'The Mission of Sir Frederick Leith-Ross to the Far East, 1935-1936', *Historical Journal*, xviii (1975), 147-69.

evidence to the Hilton-Young commission, Britain understood that a drastic Indian move against silver would have gravely weakened, if not disabled altogether, the 'internationalists' in the US establishment.[1] London's attitude towards silver during the next few years offers clear evidence that, rather than concern for Indian holders of the metal, the colony's silver policies were, in the final analysis, determined by the nature of Britain's financial relations with the United States. Whether or not it was intended, the decision gradually to phase silver out of the Indian currency gave Britain some leverage over US external economic policy. But given the basic asymmetry of the Anglo-American relationship, the leverage was not sufficient to persuade the United States to adopt a more co-operative stance on international monetary issues during the early 1930s.

Students of British international economic policy between the World Wars tend to distinguish between 'internationalist' and 'empire-integrationist' responses to Britain's economic and financial problems. As a result, they are prone to overlook the British government's attempts to use imperial assets to further its economic objectives. In general, however, the government of India's currency and monetary policies between the wars were formulated to take into account Britain's external financial problems and constraints, as well as its international financial objectives. This article has discussed the particular instance of the Indian gold-silver controversy of the 1920s and 1930s as an illustration of this wider point and to show that Britain's opportunism with regard to Indian silver can be understood only against the background of its financial crises between the wars, and its crucial but troubled financial relationship with the United States.

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[1] RCICF, *Parl. Pap.*, 1926, xii, *Minutes of Evidence*, QQ. 13,740, 15,232; Norman to Hornsby, 10 April 1926, BOE G 3/182.