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**Power relations and monetary ideas:
The case of the gold-exchange standard in India**

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***Abstract:** For de Cecco power relations were central in the working of the pre-WWI international gold standard. He gave an illustration of that in the chapter of Money and Empire (de Cecco 1984) devoted to the relationship between Britain and India, where the gold-exchange standard is presented as a way for Britain to get hold of India's trade surplus with the rest of the world in order to balance her own international accounts. On the contrary, Keynes praised the Indian gold-exchange standard as a system which not only allowed stabilising India's relations with the outside world but also pointed the way to a better-regulated monetary system for any country, in the line of Ricardo's Ingot Plan nearly one century older. The same notion may thus be seen alternatively as a powerful tool of domination or as a good practical idea. The paper describes how Lindsay (1892) adapted Ricardo's scheme to India and contrasts de Cecco's and Keynes's interpretations of the Indian gold-exchange standard, before suggesting that monetary ideas can prevail in their own right when they are theoretically well-founded and practically feasible, independently of the power relations they may reflect.*

Keywords: gold-exchange standard, India, de Cecco, Keynes, Lindsay, Ricardo

JEL codes: B17, B31, N15, N25

1. Introduction

The subtitle of the English edition of Marcello de Cecco's book, *The International Gold Standard. Money and Empire*, leaves open which money and which empire it is concerned with. The book evokes several kinds of monies and various empires associated with them. However, as may be expected from a study that singles out the gold-standard system, the emphasis is put on the pound sterling – the first major currency to have been legally linked to gold in 1816 – and the British Empire. In particular, a whole chapter of the book deals with the relationship between Britain and the jewel of her empire at the height of her world power: India.

It is thus not surprising that in two recent comments on this book Annalisa Rosselli and Carlo Cristiano are both stressing that a good illustration of de Cecco's concern with power relations is given by his treatment of this relationship

between Britain and India. Rosselli endorses the book's emphasis on the fact that "India, together with other colonies, was forced to engage in the production of cash crops or raw materials and *de facto* obliged to import manufactured goods from England." (Rosselli 2023: 5) Cristiano argues that reading de Cecco helps understanding that Keynes's participation in "the imperial administration" (Cristiano 2023: 1) might explain his defence of a "version of the complementarity between Britain and the colony emphasised in *Money and Empire*." (*ibid*: 5)

This colonial relationship was not only important for the material basis (industrial for Britain, agricultural for India) of the two economies but also for the gold standard as an international monetary system. As demonstrated by de Cecco, it allowed Britain to sustain a regular flow of capital export, a central piece of the machinery of what in the pre-WWI world was more a sterling standard than a gold standard. This historical study is thus part of what Rosselli praises as "perhaps [the] most important lesson of the book, i.e. the importance of power relations in studying monetary systems." (Rosselli 2023: 6)

Central in this evaluation is the part played by the specific arrangements adopted at the turn of the 20th century between the British and Indian currencies. What was to be known as the gold-exchange standard is not only interesting because it would later be used as a tool for monetary reconstruction after a massive disruption, first in Europe after WWI, second in the world at large after WWII. Since, as is well known, this monetary system was defended by Keynes in his first book *Indian Currency and Finance* (1913), it raises the question of its role in Keynes's "imperial vision of his own" pinpointed by Cristiano (2023: 4) and may be used as a case study of the reciprocal influence between power relations and monetary ideas.

Approached from this perspective, the gold-exchange standard offers the curious example of a monetary system that was first rejected under the pressure of powerful financial interests and adopted three quarters of a century later in spite of the opposition of the same interests. As emphasised by the advocates of its implementation in India, the intellectual origin of this system was Ricardo's Ingot Plan, developed in his *Proposals for an Economical and Secure Currency* (Ricardo 1816). After having been adopted by British Parliament in 1819, this plan was eventually abandoned two years later (see Deleplace 2017). Defeated by powerful interests at a particular time – that of the restoration of a normal monetary system after the Napoleonic wars –, the same idea thus won at a later time, in another setting of power relations – the expansion of the British Empire or the reconstruction after each World War of the 20th century.

One could say that such a changing fate of a monetary idea does not deny the pre-eminence of power relations but simply testifies to the fact that the latter are

themselves changing, so that they may explain both failure and success at different moments in time. However, if an idea may be received in two opposite ways according to circumstances, this proves that there is more in it than simply being the stake of powerful interests. Keynes's statement at the end of *General Theory* is famous:

I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas, [...] soon or late, it is ideas, not vested interests, which are dangerous for good or evil. (Keynes 1936: 383-4)

Nearly a quarter of century earlier, the same Keynes had defended the gold-exchange standard on its intellectual merits – that is, as a “good” practical idea for India. By contrast, de Cecco sees it as a piece of the machinery of the British Empire – that is, an illustration of the power relations between the imperial ruler and her colony. Section 3 and Section 4 of the present paper deal respectively with de Cecco's and Keynes's evaluations of the Indian gold-exchange standard. Before that, Section 2 explores how this monetary system evolved from Ricardo's Ingot Plan, thanks to its adaptation to the case of India by Alexander Martin Lindsay. Section 5 concludes by returning to the question of the hierarchy between power relations and monetary ideas.

The reader should be warned that the object of this paper is *not* the genesis and working of the pre-WWI gold-exchange standard in India. Here I only inquire into the continuity between Ricardo, Lindsay, and Keynes, and I discuss de Cecco's position in respect to this line of approach to the gold-exchange standard. The paper is an exercise in history of monetary analysis, not a historical study.¹

2. Lindsay's “little modification” of Ricardo's scheme in the case of India

There were two exceptions to the general disdain towards Ricardo's Ingot Plan in the 19th century. One was without practical consequence: Alfred Marshall's “Remedies for Fluctuations of General Prices” in 1887. This was not the case of the other, since an actual monetary system derived from it – “Ricardo's Exchange Remedy” proposed by Alexander Martin Lindsay in 1892 – was implemented at the end of the century in India. The historical context of these proposals was the shift – initiated by Germany and the United States in 1873 – of more and more countries from a silver standard or a double standard to a gold standard, adopted legally by Britain since 1816. This move had increased the demand for monetary gold and freed important quantities of silver from monetary use. Marshall and Lindsay were nevertheless concerned with different problems. Marshall focused on the increase in the relative price of gold in terms of all other commodities, which put a deflationary pressure on output and employment in gold-standard

¹ The most recent study of the pre-WWI Indian gold-exchange standard is Biets (2021), in which many references can be found.

countries like Britain. Lindsay, who was a British banker at the Bank of Bengal, stressed the fall in the relative price of silver in terms of gold, which had depressed the exchange rate of the Indian silver rupee in terms of the British gold pound and consequently increased production costs in India through higher import prices. Although the questions at stake were different, both authors were looking for a monetary scheme which would reduce price fluctuations in a particular country – Britain or India – and could be extended to all countries sharing the same characteristics as each of them – advanced or poorer economies.

They both found the rationale of such a scheme in Ricardo's Ingot Plan, which they acknowledged as the basis of their proposals. But they introduced an important adaptation (albeit underplayed by them), which, through different technicalities, was the same: the plan was extended to cover bimetallism. Marshall recognised that “the currency scheme which I wish to submit for consideration differs from his [Ricardo's plan] only by being bimetallic instead of monometallic.” (Marshall 1887: 369) As for Lindsay, “In applying Ricardo's proposals to India, little modification is necessary either of the proposals or of Indian currency arrangements. The only change in the proposals will be the substitution of sterling money for gold bars, and rupees for paper money” (Lindsay 1892: 8); the system he proposed for India would indeed be bimetallic, thanks to a fixed ratio between gold-denominated British pounds and domestic silver rupees.²

This adaptation may seem surprising, since Ricardo himself had always decidedly opposed bimetallism; he described it as a *de facto* alternate single-standard system that generated uncertainty in the effective standard in which prices and contracts were denominated. I have studied elsewhere the relationship between Ricardo's and Marshall's proposals (Deleplace 2013). Here I will concentrate on Lindsay's scheme.

Lindsay started by paying tribute to Ricardo's Ingot Plan, whose basic principles could be applied to obviate the evil consequences of the gold standard adopted by advanced countries for countries like India which were on a silver standard:

The more generally gold is used [as a standard], the more objectionable will a silver standard become, because the larger the area ruled by gold the more will the foreign exchanges of silver-using countries be liable to disturbance. There is, therefore, every reason to expect that on the principle of the survival of the fittest, the silver standard will, ere long, cease to be employed. In these circumstances it is of vital importance to ascertain how a gold standard can be maintained on a

² Bimetallism is here understood as the existence of a double standard, not as the coexistence of two circulating media defined each in gold or silver. In Lindsay's scheme, convertibility at a fixed rate of Indian silver rupees into British gold pounds ensured that a price or contract denominated in the former was also *ipso facto* denominated in the latter, as in any double-standard system. And this did not require any circulation in India of gold coins or notes convertible into gold.

satisfactory footing with the use of the minimum quantity of gold and the maximum quantity of silver. The object of this pamphlet is to point out that Mr. Ricardo explained in 1819 how this can best be done. His celebrated scheme for ‘A Secure and Economical Currency’ enables a country to adopt a gold standard without a gold coinage. It will be found well fitted for the use of the poorer nations that employ gold coins at present, and for all that have inconvertible or silver standards. Under its provisions, India might adopt a gold standard without diminishing much the demand for silver, and without increasing in the least degree the demand for gold. (Lindsay 1892: i-ii)

The object of the scheme, for India in the last decades of the 19th century as for England in the first, was to stabilise the exchange rate with the trading partners, something that could no longer be done in the existing circumstances:

The currency of England at that time [of Ricardo], like the Indian currency now, was depreciated relatively to foreign currencies; and the great principle which the leading currency authorities upheld was that the currency of a great commercial country should be maintained at a fixed value relatively to the currencies of the countries with which it has important dealings. All bullionists agreed on this principle, but they differed as to the best method of carrying it into effect. [...] But the silver coins of India on their present footing, instead of keeping her currency fixed relatively to the value of the currencies of the countries with which she is most intimately connected, have precisely the opposite effect, and force her currency to fluctuate to a serious extent relatively to gold, the international standard. (*ibid*: 27-28)

In the case of India, silver coins would play the part of banknotes in Ricardo’s plan, and sterling drafts on the Bank of England the part of gold bars. Thus the two-way convertibility at a fixed price of the rupee into the pound sterling would put the Indian currency on a gold standard (stabilising its exchange rate with all gold-standard currencies) while avoiding the substitution of gold for silver coins in domestic circulation. India would experience “a gold standard without a gold coinage.”

In the then existing Indian system, additional currency (in rupees) could be obtained, either by importing silver and having it coined at a small charge at the mints, or by purchasing at a variable price “Council drafts” at the Bank of England and remitting them to India where they were cashed in rupees from the local government (who in this case imported silver to have it coined in rupees). The cost in pounds of exporting silver from England to India constrained the exchange rate, which was thus affected by the evolution of the relative price of gold to silver. Under the proposed scheme, the Bank of England would sell Council drafts at a fixed price and the free coinage of silver in India would be discontinued, the mints issuing rupees exclusively against Council drafts. The silver reserve of the Bank of England (authorised by the Silver clause of the Bank Act to keep up to one-fifth of its reserve in silver) would be transferred to the

Indian mints, and a Conversion fund of £5,000,000 in notes would be kept by the Bank of England to guarantee the convertibility of the rupee at a price a little lower than the fixed issuing price of the Council drafts (the difference being the remuneration of the Bank). The main consequences of the scheme would be to link the rupee to gold, hence to stabilise the exchange with gold-standard countries, and to guarantee the convertibility of the rupee for external purposes, without gold having to enter Indian domestic circulation.

Two objections related to the balance of trade were discarded by Lindsay. First, an adverse balance of trade could trigger a demand for sterling against rupees which would exhaust the conversion fund and force to suspend convertibility. Lindsay's answer was factual: the Indian balance of trade was structurally favourable and the stabilisation of the exchange, by preventing fluctuations in import prices, would make it still more so. Temporary disturbances would be accommodated by the conversion fund; the situation would even be more secure than in Britain since this fund would only meet demands for foreign purposes, contrary to the Bank of England who was exposed to the danger of domestic as well as foreign drains (something that Ricardo sought to avoid with his Ingot Plan):

It is said that the success of the scheme will depend on that doubtful factor, the balance of trade. To this I would reply that the balance of trade has always been favourable to India, and there is every reason to anticipate that when rupees are issuable only at a fixed sterling price, the balance of trade will be more favourable than ever. But if not, the fund of £5,000,000 should be ample to cover all possible demands for conversion of rupees into sterling. (*ibid*: 13)

Another objection was that, by stopping the depreciation of the rupee generated by the falling price of silver, the scheme would hurt Indian exports. Lindsay's answer was based on the sound principles of money:

The proper function of money is to act as a medium of payment and a standard for deferred payments, both in internal and foreign transactions, and its work in connection with foreign transactions cannot be properly performed unless exchange is steady. It is not the duty of money to stimulate exports. (*ibid*: 22-23).

It appears that (not surprisingly on behalf of a British banker), Lindsay was more concerned about the negative effects of exchange instability on Indian trade (foreign and domestic) than about the specialisation pattern of the colony. From this point of view, India being dependent had some advantage, since it transferred to the Bank of England the burden of the convertibility of the domestic currency into the international standard:

Were India an independent country, it would be necessary for her to hold at considerable expense a large reserve of gold bars to meet the demands that may occasionally arise for the export of currency; but India being a dependency she can

with perfect safety keep the stock of gold in the mother country in the form of sterling money. (*ibid*: 9)

According to Lindsay, the adoption of Ricardo's scheme with a "little modification" allowed applying to India the same regulating principles of the currency as in more advanced countries, in spite of her traditional domestic use of an idiosyncratic medium of exchange, the silver coin:

The novelty and economy of the scheme lie in the arrangement that forbids the use in the internal circulation of the substance used as a standard of value; and the security and efficiency of the scheme arise from its being regulated by the prices of commodities and loan market rates through the medium of a steady foreign exchange, aided by the principle of convertibility. Ricardo was one of the first to teach us that the quantity of currency in a country should be regulated by the prices of commodities, home and foreign, and now that, owing to the dislocation in the prices of the precious metals, silver is no longer an international standard, and the export and import of silver currencies can no longer be regulated in the old way, Ricardo teaches how silver currency can be best and most economically maintained on a gold standard, and regulated according to the currency law he did so much to expound. (*ibid*: 29-30)

This scheme would benefit India but could also be applied to all countries that wished to stabilise their exchange with gold-standard countries without having sufficient gold reserves. Lindsay recalled that he had been led

to suggest, sixteen years ago, that if the difficulties arising from the appreciation of gold, depreciation of silver, and uncertainty in exchanges between gold and silver-using countries, should call for the adoption of an international currency system, Ricardo's scheme would be found to offer many advantages. (*ibid*: 32)

Ricardo's scheme, as praised by Lindsay, was not to become the international monetary system in the pre-WWI world. However, it became the domestic monetary system in India. This is what attracts de Cecco's attention in Chapter 4 of his book, as an illustration of the power relations embodied in money in the pre-WWI years of the British Empire.

3. De Cecco on the gold-exchange standard in India

As will be seen below, de Cecco discussed in *Money and Empire* Keynes's defence of the pre-WWI Indian gold-exchange standard, where it is labelled "the Lindsay scheme." (Keynes 1913: 24) It may thus be surprising that Lindsay is not mentioned even once in the index of de Cecco's book, nor does his pamphlet appear in the latter's chapter on India. This chapter ends up with a modest warning: "My account of the story has been no more than a reading of those documents [issued by official committees] in a different light." (de Cecco 1984: 75) Which light? As it is thrown by de Cecco's pen, two aspects of this "story"

are prominent. First, the adoption of the gold-exchange standard in India did not result from a deliberate plan, be it Lindsay's or anybody else's, but from a succession of decisions answering specific problems of the time: the closure in 1893 of the Indian mints to private silver coinage, in order to slow down the depreciation of the rupee; the announcement in 1898 of the free coinage of gold sovereigns in India (which would have put this country on a gold-specie standard), after South African gold had begun to flow to London; the *volte-face* on this project after the Boer War broke out; and finally in 1902 the transfer to London of the gold standard reserve (established in Bombay in 1900 with the profits made by the government of India on its own silver rupee coinage and used as a buffer stock to the circulation of imported sovereigns) and its investment in British government securities, in order to buttress the fall in the price of Consols resulting from the financial demands of the Boer War. This last move put India *de facto* on a gold-exchange standard, without any official recognition of such a system.

The second enlightening aspect in de Cecco's "account of the story" is its emphasis on the fact that these decisions reflected the changing balance of power between various groups of interest: the Anglo-Indian trade community, who pressed for a continuing depreciation of the rupee to stimulate exports; the Imperial government in Bombay who wanted to stabilise the exchange with the pound sterling to avoid having to increase taxes in order to finance in depreciated rupees the "Home Charges" fixed by the mother country in sterling; the Indian public opinion who saw in the adoption of a gold-specie standard a symbol of national sovereignty, while it was at the same time supported by London financial circles (under the leadership of Lord Rothschild) as a piece of the City's central position in the international system; and, *last but not least*, the India Office as the most advanced component of the administration of the British Empire, who understood the benefit of the gold-exchange standard to get hold of India's trade surplus with the rest of the world. De Cecco's conclusion is clear-cut:

This measure [the investment in 1902 of the gold standard reserve in British government securities] marked the beginning of the most interesting phase in the monetary affairs of pre-war British India: the management of Indian financial policy passed into the firm grip of the India Office, who transformed it into a docile instrument of British monetary policy. [...] India's foreign trade was structured so that it realised a large deficit with Britain but a large surplus with the rest of the world; it was thus a basic element in the balancing of Britain's international accounts. By preventing India from transforming her annual surplus into gold reserves, the India Office contributed in no small way towards keeping British interest rates lower than would otherwise have been the case. (*ibid*: 70-71)

For de Cecco, England imposed the gold-exchange standard upon India (instead of her own gold-specie standard) because the investment of India's gold standard reserve in British government securities sustained their prices and consequently

kept interest rates low in the mother country – something that contributed to her economic growth. However, the absence, in de Cecco’s account of India’s story, of the Ricardo-Lindsay approach reveals that something is missing in this “different light” it sheds: the advocacy of “a gold standard without a gold coinage”, as Lindsay put it. In two instances indeed de Cecco mentions this aspect. The first one refers to the conclusions of the committee of 1893:

But while the committee supported such a closure [of the mints to private silver coinage], it qualified its support to the introduction of the gold standard in India by the condition that gold should *not* be introduced in that country’s circulation. A gold currency was not a necessary requisite of the gold standard; the experience of many countries showed that clearly. (*ibid*: 67; de Cecco’s emphasis)

The second instance is in a footnote referring to Alfred Marshall’s evidence before the committee of 1898:

He also declared himself against the introduction of gold into Indian circulation. He clearly understood that the majority of the countries which had gone on the gold standard had already transformed it into a gold exchange standard, by buying foreign short-term securities to build a first line of defence around their gold reserves. (*ibid*: 68n.6)

However, de Cecco does not develop this point. I suggest that three reasons may explain this lack of interest. First, as testified by the title of his book, he is concerned with the *international* gold standard – where, in his view, power relations between nations are governed by the interests of its centre –, not a *national* monetary system, as Ricardo for England or Lindsay for India. What de Cecco successfully shows is “the basic importance of India as the main stabilising element” (*ibid*: 121) of the pre-1914 international monetary system; he does not raise the question of whether, from the Indian domestic point of view, a gold-exchange standard was a better system than a gold-specie one or an inconvertible one. The second bias in de Cecco’s account is his view of the gold-exchange standard as a gold standard of the poor, designed for countries who cannot afford the luxury of a big gold reserve. This contrasts the view – such as Ricardo’s and Keynes’s (see below) – that it was an improvement upon the traditional gold standard which should thus be adopted in advanced countries as well, first of all Britain. A third bias is less factual than theoretical: at the end of Chapter 3 on “The spread of the gold standard in the world,” de Cecco only sees the gold-exchange standard as a defensive mechanism that provided an additional protective belt in countries exposed to exchange-rate instability:

Monetary authorities, in the Continental countries and elsewhere, soon realised that they had to build a double line of defence – the outer layer consisting of foreign devises or foreign currency and short-term credits on foreign markets, the inner layer of gold reserves. As in the Bretton Woods System, countries which were

basically long-term debtors had to equip themselves with short-term creditor positions, from which they could defend the parity of their currencies when threatened. (*ibid*: 57)

Such a view overlooks two other advantages of a gold standard without a gold currency: by preventing gold from entering domestic circulation, it ruled out internal drains generated by the coexistence of two circulating media (gold sovereigns and Bank of England notes in Ricardo's England, gold sovereigns and silver rupees or notes convertible into rupees in India after 1893), and it called for the adoption of a rule of monetary policy to regulate the issuing of money, without any consideration to the size of the gold reserve. These advantages thus increased the security of the monetary system and its responsiveness to variations in the needs of trade. Referring to the Ingot Plan, Keynes would later go as far as speaking of "managed money":

If Ricardo had had his way with his ingot proposals, commodity money would never have been restored and a pure managed money would have come into force in England in 1819. (Keynes 1930: 14)

It is not the point here to discuss which management of the note issue Ricardo had in mind (see Deleplace 2017: 358-66); there is nevertheless no doubt that the gold-exchange standard may be viewed as a step towards a better-regulated monetary system and not just as a defensive mechanism.

This is not, however, de Cecco's evaluation of Keynes's early promotion of this system in *Indian Currency and Finance* (1913). De Cecco's understanding of India's "interlude" as he calls it proceeds from his contention that, in the years preceding the Great War, the international monetary system showed more signs of the decay of the past than of anticipation of the future. Speaking of the competition for gold between European countries in the fifteen years before 1914, he observes:

Then, he [Keynes in 1913] condemned the *auri sacra fames* of European governments, as well as their propensity to run down foreign exchange reserves to protect their stocks of the ultimate asset [gold], as pure idiocy of their part. However, he did not seem to grasp the most crucial aspect of the phenomenon he observed – namely that a stable gold exchange standard could exist only so long as the political sovereignty of the central countries *vis-à-vis* the periphery remained unchallenged. That such is the case we shall abundantly prove in the next chapter when we review the monetary affairs of the British Empire, particularly those of India. Keynes eulogy of the gold exchange standard, which he hailed as the international monetary system of the future, must therefore be considered as an *hepicedium*, a funeral song. (de Cecco 1984: 57-58)

It thus seems that de Cecco's reservations about Keynes's "eulogy of the gold exchange standard" have to do both with the latter's misunderstanding of the

historical trend of the international monetary system and his underestimation of the political bias of this particular system. Such an indictment calls for some scrutiny.

4. Keynes's advocacy of the Indian gold-exchange standard

To evaluate Keynes's defence of the Indian gold-exchange standard, one must not only consider his well-known book *Indian Currency and Finance* (1913) but also his memoranda and oral contributions to various committees over more than ten years before and after the First World War (they are gathered in vols. XV and XIX of his *Collected Writings*). It is beyond the scope of the present paper to give an in-depth analysis of them, and in contrast to de Cecco's account of the Indian monetary story it is enough to underline two aspects. First Keynes's defence of this system always stressed its advantages for India, and his arguments should be weighed against the suspicion that his main concern was only with reinforcing the British Empire. Second Keynes used the Indian experiment in the pre-war days as an example of what should be done in *any* country, whether economically advanced or not, so long as it was admitted that a link between money and a metallic standard was to be preserved (something which Keynes rejected in the 1920s).

Considering India, Keynes stressed that the main objective of her currency system should be to act as a brake against the reaction of movements in world prices on domestic prices:

I should always be influenced in a period of any rapid changes in world prices by the importance of maintaining prices in India as stable as possible, and I should try to adapt my currency arrangements to achieve that end from time to time. (Keynes 1919: 293)

Stability of prices was more important than stability of the exchange. When in 1926 he was asked what the ideal system of currency for India was, he answered:

I think a system like the present in which stability of the exchange is aimed at in normal circumstances, but in which India is free to depart from the present level of exchange if it is in the interests of the internal stability of prices for her to do so. I would not have her allow the question of the rate of exchange to overbear any other object, but I think it is important that she should maintain the liberty to have a different exchange from the present one if the maintenance of the present exchange would cause internal prices either to rise or fall to a marked extent. (Keynes 1926: 496)

A changeover of silver to gold currency would jeopardise this objective since it would deprive the Indian Government from using adjustment in the exchange rate

to dampen the undesired effect of movements in world prices. Although it was asked by misguided Indian opinion,³ this is why such shift should be resisted:

I think it would show want of courage on the part of the British advisers [to the Government of India] to accept a proposal contrary to Indian interests for fear of being supposed to refuse out of regard for British interests. (*ibid*: 490)

This was not just a matter of adjusting the exchange with the gold pound sterling so as to stabilise the silver rupee in terms of commodities. More profoundly, the Indian system allowed to a certain extent separating the management of domestic circulation (which was not only composed of silver coins but also of paper money convertible into them) from the management of foreign payments. This was done thanks to the existence of two reserves: the paper currency reserve (mostly held in silver rupees) to meet the internal drain, and the gold standard reserve (held in gold bullion or foreign securities) to meet the external drain. If some link with gold was assumed to be necessary, this separation of the reserves was the main advantage of a gold standard without a gold currency:

If you have a coin of any sort circulating in the country, you have to maintain a reserve for meeting expansions in the demand for the currency inside the country itself. The rupee portion of the paper currency reserve is at present held for that purpose. If gold were to circulate in India, you would have to hold a gold reserve also with that object in view. [...] The policy governing your reserve ought to be different according as you are holding your reserve to meet the internal drain or the external drain. In my opinion the virtue of the Indian system as it was developed by Sir Lionel Abrahams was that those two purposes were kept more distinct than in any other country. (*ibid*: 494)

In the pre-war Indian system not only the reserve to meet the internal drain was held in something else (silver rupees) as the international standard metal, but since 1902 this was also the case of the reserve to meet the external drain, which was invested in British government securities, *not* gold. This allowed managing smoothly this gold standard reserve (as it was still called, although it was no longer held in gold) to accommodate the fluctuations in India's balance of trade. In 1926 Keynes regretted a tendency after the Great War to "blur" the separation between the two reserves and to weaken the "free hand" in the management of the reserve intended for external purposes, since it was aligned on the management of the reserve intended for internal purposes in which some binding proportion with domestic circulation existed:

³ "I think Indian opinion has a feeling that a gold currency is, so to speak, the smartest sort of currency; it is the most *chic* thing, and that India is, by some malicious contrivance, being deprived of this outfit." (Keynes 1926: 502)

I have the impression, as I have said, that the management of these two reserves has been more blurred in post-war days than it was in the pre-war days. At the date when I was more closely connected with Indian currency affairs than I am now I think the distinctive purposes of the reserves were quite clearly kept in mind, and the reserves were held at appropriate figures having regard to those considerations. [...] There is a very strong tradition for allowing a freer hand for that part of your reserve which is not called the currency reserve. The essence of all reserves is that you should have a free hand with them. I fear that if you were to transfer the resources of the gold standard reserve into the paper currency reserve you probably would not have such a free hand to use them in an emergency as you have now. The gold standard reserve is absolutely free. If you put it into the paper currency reserve you quite likely tie it up in the same way as the latter. (*ibid*: 495)

These observations had a broader scope than just the pre-war Indian case, for a reason put bluntly by Keynes: “I think it was the best currency system then existing in the world.” (*ibid*: 521). Two reasons explained this superiority on any other system, including that of Britain. Firstly, the progressive substitution of paper money for silver coins pointed the way to the ideal of a domestic circulation without any metallic currency (whatever the metal):

I think there are great advantages in as small a part of the currency of India as possible being metallic. I have always maintained that everything ought to be done to centralise the gold reserves with a view to utilising them when the drain was in the opposite direction. The only way of doing that is by inducing the people of India to employ notes or other means of effecting payments, not rupees or gold. (Keynes 1919: 284)

In the absence of any metallic currency circulating side by side with the paper one, the danger of internal drain fuelled by the desire to replace the latter by the former would disappear, and the paper currency reserve would no longer be necessary. The only remaining reserve would be to meet an external drain, and there would be no need to maintain a binding proportion with domestic circulation as had existed in England since the Bank Charter Act of 1844:

In my opinion, there should be no legal proportion whatever, so that the whole of the currency in your reserves may be available. You can get rid of the legal proportion as soon as the internal drain is not a danger. (Keynes 1926: 495)

Secondly, the substitution, in the reserve held for external purposes, of foreign securities for gold bullion allowed managing the currency so as to ensure both the elasticity of the supply of money and the security against changes in world prices or shocks on the foreign balance. The Indian system was thus an advanced step towards an exclusive paper circulation backed by a reserve held in foreign securities and managed freely to accommodate relations with the outside world.

In monetary matters, Keynes cannot thus be suspected of considering India as a backward country whose interests should be subordinated to those of the Imperial ruler. On the contrary, he consistently resisted attempts from various circles (in Britain but also in India) at submitting her to the (allegedly better) “pure” gold standard experienced in the mother country. Being asked, one year after Britain had returned (in 1925) to the gold standard but this time with note convertibility into bullion, whether India should not start with actual gold circulation before enjoying this further stage, Keynes ironically answered:

I think if India wants to go through every stage she had better start with cowries. You mean the idea is that India is to begin by making all the mistakes that it is possible to make and to adopt in turn all the obsolete currencies? Nobody would make the same proposals as regards cotton machinery or motor cars, would they? (*ibid*: 519-20)

5. Concluding remarks

Mentioning in 1913 the hostility of the British financial establishment to the gold-exchange standard in India Keynes observed:

The gold-exchange standard in the form in which it has been adopted in India is justly known as the Lindsay scheme. [...] Lindsay’s scheme was severely criticised both by government officials and leading financiers. [...] Lord Rothschild, Sir John Lubbock, Sir Samuel Montagu all gave evidence before the Committee [of 1898] that any system without a visible gold currency would be looked on with distrust. Mr. Alfred de Rothschild went so far as to say that ‘in fact a gold standard without a gold currency seemed to him an utter impossibility’. Financiers of this type will not admit the feasibility of anything until it has been demonstrated to them by practical experience. It follows, therefore, that they will seldom give their support to what is new. (Keynes 1913: 24-25)

The Alfred de Rothschild who in 1898 called a gold standard without a gold currency “an utter impossibility” was the grandson of the Nathan Meyer Rothschild who had opposed Ricardo’s Ingot Plan before another committee in 1819 (see Sraffa 1952: 357). This testifies to the permanence of the resistance of financial circles to progress in monetary ideas. However, this does not discredit the role of intellectual debates in the shaping of actual monetary systems, nor should some side-effects of these systems lead to the suspicion that, even for economists like Ricardo and Keynes, ideas are only vested interests in disguise. Can monetary ideas be “good or evil” (as Keynes put it in *General Theory*) in their own right, independently of the power relations they may reflect? And if they are “good” – that is, theoretically well-founded and practically feasible –, can they help defining a general interest (as opposed to conflicting “vested interests”) that contributes to progress? It is to be hoped that the answer to both questions is

in the positive, and that the disciplines of history of economic thought and economic history may aim at strengthening this answer.

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