Chapter VI

SILVER

~~At the beginning of the previous chapter~~ It was not difficult to explain why Gold, so intimately bound up with the purposes of exchange control, should be dealt with in all its aspects in Part II. Although the claim of Silver is perhaps not quite so strong its record during the war seems nevertheless to fall into place here also.

The provision of subsidiary coinage as the volume of currency increased did, in the later stages of the war, ~~assume~~ become an important responsibility of the Bank and the Mint, and that was doubtless an internal one. But the provision of the silver necessary to satisfy not only the internal demand but that of the Dominions (notably India) also was entirely an external affair, a problem only to be solved by means of negotiations with several countries and at one time only through heavy shipments under Lend-Lease, both for this country and for India. The qualifications of silver for inclusion in Lend-Lease loans are dealt with in the course of this chapter. Repayment of these loans seemed at one time only possible out of the silver to be accumulated as a result of the replacement of silver by cupro-nickel, as provided for in the Coinage Act of 1946.

The Silver Market   Ref. F.E. 135.

There were some parallels between conditions in World War No.1 and World War No.2: a growing demand, a shortage of supplies, the emergency printing of small notes (which were never issued), optimism by the Mint regarding deliveries of coin associated with continual challenges of the bankers' demands, apprehension on the part of the Bank of England, who were sometimes dependent on day to day supplies from the Mint; and difficulties in India, largely caused by U.S.A. Government policies.

At the outbreak of war there was only a small stock of silver in the London market (and none held by H.M.Government), supporting a considerable forward position. The endeavour to liquidate the latter led to a shortage of silver and applications to the Exchange Control for dollars to buy silver in North America. These were refused, although no restriction on imports at first existed. Import licences for silver were introduced on 26th October 1939.* They were few in number and value. It was understood that licences would be granted for imports from the Sterling Area, but not from U.S. or Canada; other cases would be dealt with on their merits. The merits were sometimes political. In the case of Spain the line taken at first was that imports should be disallowed unless the silver formed part of a proposed trade agreement, and the Spaniards did not wish for its inclusion therein. But by the end of 1940 the shortage of silver was such that the Bank withdrew any objections on this score. No purchases. however, were made from Spain during the war.

Export licences (for all silver, excluding current silver coin and manufactured articles) came on 17th May 1940, and the Bank administered the executive side of both import and export licences.

The market

*All imports of silver coin became subject to licence on 2nd December 1940.

The market remained narrow from September 1939 and throughout 1940, but the Government of India furnished supplies sufficient to carry out their policy of keeping the price below 23½d. by shipping old standard demonetised rupees to London.

Towards the end of 1940 it was seen that there would be an acute shortage, of a temporary nature, in the first quarter of 1941, partly because at the end of 1940 India had decided on a recoinage of rupees 500 fine, while shipments were difficult (and took from 2 to 5 months) and demand was rapidly increasing. Meanwhile, such supplies as reached the London market up to the end of 1940 came mainly from China, Australia, India, Belgian Congo, France, Switzerland and South Africa.

At the beginning of 1941 the country's minimum needs were 3 million ounces per month, of which a half was required chiefly for home currency, 1 million ounces for the market, mainly on Government priorities, and ½ million ounces for bullion reserves, including market control.

At this time the silver in the bankers' tills was £18 million, or about 1/5th of the total silver issue. This was spread over some 10,000 branches and represented much the same proportion of the total issue as had existed in the previous ten years.

Early in March the visible supply was down to six weeks' requirements. Many suggestions were made. The Treasury wished the Bank to seek the co-operation of the Clearing Banks to meet any increased demands from the public by reducing their tills; and also that the market should be asked to agree not to make speculative purchases - none developed. Lord Keynes (then Mr.Keynes) proposed the collection of Victorian silver objects and heavy spoons and forks, etc., and Johnson Matthey & Co. the collection of similar articles from market holders. The Treasury pointed out that the last-named suggestion would not be of much use as the market would require the silver back again in a short time; the former was not acted on.

An appeal

An appeal was made to Canada, who sold their current output to the U.S.A. as they were in need of U.S. dollars. They did not wish to disturb the agreement. Silver for London could be procured from the U.S.A. direct, but this would cost dollars: some other countries had supplies but these would also mean a loss of dollars. It was against the Government's policy to buy from Japan. The issue of small notes was always possible, but this was not favoured by the Bank or the Treasury.

In the event about 1 million ounces were bought from U.S.A.

The Treasury, who realised that the arrangement under which the London Silver Market was virtually controlled by the Government of India was one very much in the interests of the U.K., wrote to the India Office in February 1941 urging the continuance of this control. About five weeks later a reply was received. As this resulted in the Treasury taking over responsibility for the market, and gives the reasons (as interpreted by the India Office) for India's change of policy, it is quoted below almost in full:

> "...........The questions fall under two heads, viz:-
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> (1) the method of disposal of Indian silver released for United Kingdom purposes, and
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> (2) the price at which Indian silver is to be so released.
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> 2. As regards the first issue, the present position is that the Government of India, acting through us [the India Office], are supposed to be pursuing a policy of controlling the London silver market and maintaining adequate supplies of the metal in the United Kingdom. Whatever the motives which inspired us in embarking on this course (and, as you know, we were influenced mainly by appeals from the Treasury and the Bank at an awkward moment, when our large London stocks were very much in evidence), the fact now is that the Government of India

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are definitely of the opinion that they ought not to be saddled any longer with responsibility for matters in which their interest is so distant, - matters, we would add, which in any case can no longer be satisfactorily dealt with from the angle of a particular source of supply.

3. You refer to the "perennial interest" of the Government of India in the London market. Certainly they have a perennial interest in silver. But since our early lessons in the art of selling silver we had, until the outbreak of the present war, aimed, with a high degree of success, at avoiding the London market (except for swaps). Moreover, the policy to which we and the Government of India had finally been led before the outbreak of war was a deliberate one of selling only to meet Indian demand. It is to be expected that this may also be the post-war policy of the Government of India. Thus in no sense can it be said that they look to the London market or even Europe as a natural outlet for their surplus silver, or have any direct interest in London as a market.

4. Again, the Government of India have ceased to feel any special interest in the London price of silver. The market here is insignificant and has virtually ceased to be of more than local importance. All the control that is necessary from the Government of India's point of view can and must be concentrated on the large and relatively free market of Bombay.

5. The Government of India's wish to confine the activities for which they are answerable to their own recognisable sphere of interest is reinforced by the practical difficulty of carrying on any longer in the easy-going ways which sufficed during the first year of the war. We then had relatively large stocks here and it was enough for us to pursue the more or less passive course of

accepting

accepting all market offers at 23½d.(with, for a time, a special arrangement to keep the largest industrial buyer satisfied with unrefined silver when the market stood at that figure) and of allowing the Mint to help itself without limit at whatever the price of the day might be. Demand, moreover, was fairly constant and moderate in dimensions, while the safe and fairly speedy arrival of replenishments from India could be pretty well relied upon. In these circumstances a mere supplier, such as ourselves, could dominate the situation.

6. But what is the position now? Our stocks have gone - sooner, indeed, than was foreseeable - because we have been so ready to sell in the interests of the United Kingdom; yet our very readiness in this respect will recoil on us if, as matters stand, the expectations which it has naturally created are now disappointed. Fresh supplies from our sole source are subject to hazards and delays, but <u>we</u> do not and cannot command alternative sources. Demand has increased considerably, notably for coinage, but the regulation of the factors which control such demand is not within <u>our</u> province. In present circumstances the market is little more than vestigial, and the great bulk of the demand is directly or indirectly on Government account; whereas, when our operations began in 1939 there was a live and relatively free market, and a substantial amount of non-Governmental demand. (As illustrating one aspect of the matter, it is noted that you yourself assume that, if we felt unable to supply the Mint in the usual way with all the silver which had been shipped at the time of writing, the "alternative" would be for the Mint in effect to force it out of us via the market. We do not dispute that it is your function, and not ours, to decide how silver shall be used in the United Kingdom, but plainly we and the Government of India can take no

responsibility

responsibility for the market under such conditions.) Altogether we feel strongly that only the Treasury is equipped to take charge of the situation as it has thus developed, and that, while the Government of India can properly be asked to assist by making supplies available to the United Kingdom Government, the latter alone must accept responsibility for seeing that supplies are adequate and suitably allocated. Of course, we personally would be glad to help so far as our experience may be of value, but that is a very different matter from continuing to conduct the business on behalf of the Government of India.

7. I turn now to the second question, the price at which Indian silver will be released. The present position is that the Government of India are sellers of silver in the large and active Bombay market at a figure of about Rs.63 per 100 tolas. Neither they nor we think that it can reasonably be maintained that they are called upon to continue any longer to incur the cost of shipping some of their silver here, only to receive a lower price than they can get at home. So far as their own inclinations are concerned, they do not want to sell outside India at all - indeed, their peace-time reluctance to do so is heavily reinforced by war-time considerations; but they have been prepared to do so in order to assist the United Kingdom and conserve dollars. The comparison that you draw with the New York price is surely not convincing seeing that the price is itself arbitrary and represents in no sense a world price, reflecting the numerous (import, exchange, etc.) restrictions that exist, and being almost certainly kept heavily down by the unwillingness of potential purchasers to spend dollars. (The Government of India quote the instance of how last summer a small demand from India led to an appreciable immediate increase in the quotation, there being very meagre stocks available.) It

is perhaps

is perhaps also not irrelevant to recall that all this silver cost India far more than is now being asked for it: for example, we had to pay the United States a dollar an ounce last time round!

8. The Government of India have therefore made out a strong (indeed, to us it seems an unassailable) case for the view that they could reasonably ask a price representing the Indian market rate, less the amount of the import duty and less something representing the import licence fee, for silver f.o.b. Indian port. This would mean that the silver would cost you something like 24¾d. in India and about 26¼d. by the time it had reached London.

9. I am, however, glad to be able to tell you that, after consideration and discussion with us, they have intimated that they would be prepared, despite the arguments to the contrary, to sell to the United Kingdom Government (whose purchases, it would be understood, would represent all the United Kingdom requirements to be satisfied from the Government of India's silver) at a price of 22d. per standard ounce, f.o.b. Bombay. (This price would, of course, be subject to reconsideration in the event of any material change in the silver situation). The price is based on the assumption that, as stated in para.12 below, all shipments would consist of rupee-standard silver.

10. Under this arrangement, the silver would be at your risk and for your account from the time of delivery on board ship at Indian port. We reckon that, to bring silver from Indian port to the Royal Mint, freight and insurance together come to about 1.39d. per standard ounce, under present conditions. This would enable you, with a small margin over, to land the silver in London at a price below the present "ceiling" of 23½d. Furthermore, the main component of the 1.39d. is war risk insurance premium (£4:10: - per cent); and, if you did not even notionally

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charge the transactions with this expense, you could show a still handsomer margin.

11. I ought to add that, if you should feel reluctant to accept the proposition that you should make block purchases of Indian silver and assume responsibility for its allocation to United Kingdom requirements, we are not in a position to give any assurance that we should continue to supply and control the London market, nor - if and so long as we did so - that we should maintain the present price ceiling. In such circumstances, sales for Royal Mint purposes would have to be at the new ceiling, whatever it was.

12. There is one final point that I must mention before summarising the position. The Government of India are most reluctant to part with any more refined silver as it is needed for the control of the Bombay market. (Rupee standard silver has been made tenderable there, but the premium on refined is so heavy, that it has a virtual monopoly.) The 6 million ounces that have just been ordered will all be rupee standard, and we have at present substantially less than one million ounces of fine silver in London. Thus it will probably be necessary in future - unless money is to be wasted on preliminary refining here - for you to make some arrangements for supplying at least the main industrial requirements direct: the remainder might be able to satisfy themselves on the market out of such offerings there as arise from other sources.

13. To sum up, the proposals which we make on behalf of the Government of India are as follows:

(1) On a convenient date within the next month we will sell you the whole of our London stock at 23½d. for fine silver and 23 3/8d. for rupee-standard silver.

(2) Simultaneously we will inform the market that we have done this (without, of course, specifying price or quantities) and that the Government of India will no

longer

longer operate here though they will be supplying the United Kingdom Government direct. The market would presumably be informed at the same time that you were taking charge and some indication might be given as to the level at which the price would be held down - assuming, of course, that you intended to continue this practice.

(3) The 6 million ounces of rupee-standard silver just ordered, or such portion of it as safely arrives, will be delivered to you on arrival and you will thereupon pay for it at 23 3/8d.

(4) For your future requirements you will place with the Government of India, through us, such orders for rupee-standard silver as you consider necessary to meet the essential requirements (which you would no doubt construe as including some non-Governmental requirements) of the United Kingdom. Sales will be (unless and until otherwise agreed) at a f.o.b. price, fixed on the basis described in paragraph 9 above, and payable in sterling on delivery to the ship.

................."

In January the Indian Government had asked for a London price of 20-30d. This was based on the Bombay price of 27 7/8d., which was influenced by high import duties. Now the Treasury accepted all the arrangements proposed (L. 24.4.41) except that, in agreement with the Bank, they decided to make no announcement of the change. When the change became known to the market it was to be described as "a mere matter of procedure" arranged between the Treasury, India Office and the Bank. Meanwhile, the Bank offered a few comments on the letter from the India Office; Mr.Cobbold wrote (L. 19.4.41):-

"......While we accept in the main Baxter's statement of the position, we question the conclusion in his third and fourth

paragraphs

paragraphs that the Government of India has no direct interest in the course of the London market. With the close connection between the rupee and sterling and the very considerable interest of the Indian in silver as a store of value, we have always thought that India had a very real concern in the London market - lessened though this interest may be by the operation of current restrictions of one kind and another. In his paragraph 4, he refers to the "large and relatively free market of Bombay". Large, we would agree, but since the market is virtually confined to internal dealings behind the double wall of an import duty and an import licence fee, we think it could in no way be regarded as free. His paragraph 7 contains a statement that India had a peacetime reluctance to sell outside her own country. This we read with some surprise for we had thought that until about 18 months ago India was greatly exercised regarding surplus silver stocks and the possibilities of disposing of them in external markets.

On the whole, however, we agree that Baxter has made out a good case for relinquishing to you the responsibility for the maintenance of the London silver market and with the exception of his item (2) we suggest agreement to all the proposals in his paragraph 13.

Owing to the urgency of the problem arising from unexpected demands for industrial requirements we have, as you are aware, already arranged with the India Office that since their stocks are now exhausted, we will feed the market, to the best of our ability. from the limited amounts which we have available on Treasury account. At the same time, arrangements have been made to avoid the undesirable publicity which might attend any announcement regarding the transfer of responsibility from the India Office to ourselves.

....

As I understand that the Treasury are assuming the responsibility of maintaining the London Silver Market as

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from next Monday, the Bank will be glad to receive a formal letter from the Treasury to this effect as soon as possible. The letter should, I suggest, cover the following points:-

(1) Delegation to the Bank of authority to act on behalf of the Treasury as their agents and in general consultation with them.

(2) Confirmation that any risks undertaken by the Bank in acting as agents for the Treasury will be on account of the Treasury.

(3) Confirmation that the operations will be financed by means of a Treasury vote of credit in the manner which has been followed in recent similar transactions on Treasury account."

The required authority was obtained and the Bank were asked to keep the selling price at 23½d. per ounce standard, all purchases and sales of imported silver being for Treasury account.

By May 1941 the market position had eased. While the Bank of England's control of the market on behalf of the Treasury may be said to have dated from May 1941 they had actively intervened from January, when initial purchases were effected in Australia and New York through the medium of Mocatta & Goldsmid, who acted throughout the war as the Bank's sole silver bullion brokers. The control of the Treasury and the Bank was an informal one, based on the co-operation of the market and not backed with legal powers. It did not extend to second-hand silver, nor was it possible to estimate the amount of this taken in by jewellers. Experience showed that it was sufficient to meet the requirements of the trade and perhaps leave something over for essential war purposes. This part of the market, being self-supporting, was left to itself.

The Australian silver was purchased f.o.b.Adelaide at 22¼d. per ounce standard, while the American silver was bought against dollars at 35½ cents per ounce 999 fine c.i.f.United Kingdom. These purchases were followed by the acquisition from the Bank of Greece (at 21¼d.per ounce fine f.o.b.) of their stock of demonetised silver coin, which was shipped to this country via the Cape immediately prior to the overrunning of Greece.

The supply of the Royal Mint was undertaken by the Bank, who purchased both cut coin and rupee standard bars (melted rupees) from the India Office at 22d.per ounce standard f.o.b.Bombay. This Indian silver became the main source of the Bank's supplies in 1941 and 1942.

Early in 1941 further purchases were made from Hong Kong through the Hongkong & Shanghai Banking Corporation, and one purchase from Chile through N.M.Rothschild & Sons; but by the end of the year India had become the sole source of supply. The market was advised that silver could be obtained from the Bank for essential war industries only, and during 1941 their drawings were on a moderate scale. In May a consignment from India was delivered direct to the Royal Mint to be held for account of the Bank of England, and from that time onwards a balance of about 2 million ounces was always maintained at the Mint,

to be drawn

to be drawn on as required*. The Mint's demands during 1941 amounted to about 8.5 million ounces, of which a substantial amount was for various Dominion and Colonial coinages.

In 1941 India was forced to import some silver from the U.S.A.but found the position easier by September. They did not wish to place an embargo on imports from the U.S.A.but sold silver just below the import point. In December, on a speculative demand arising, they discontinued sales of fine silver and decided not to grant licences for further imports from the U.S.A.

Russia

Early in 1942 the general tightness of the silver situation (and perhaps reluctance to issue 5/- notes) constrained the U.K.authorities to enquire whether Russia had any silver to spare. They were prepared to take 20-25 million fine ounces in all, and were at first prepared to pay 23½d.per ounce standard, delivery on board H.M.vessel at Archangel, but the price eventually agreed was considerably lower. 1 million ounces was suggested as a first purchase.

The Russians said that 120 tons (about 4 million ounces) could be supplied. The telegram bearing this news from the Ambassador in Kubyshev expressed the hope that the offer would be accepted and added "....The present procedure of placing orders before the price has been fixed seems to be working well on the whole". The British reply accepted the 120 tons "....if that is all there is available" and hoped for early delivery. The United Kingdom abandoned for the time being the pursuit of an idea for a silver loan from the U.S.A. The price of the silver was to be negotiated in Kubyshev where the United Kingdom at first offered 19d. per fine ounce delivery at Russian northern ports, but the price finally agreed was 21d. (cable 6.6.1942).

By the 10th June the United Kingdom had agreed to buy, and the Gosbank to sell, 120 tons on similar terms to those arranged

*For Imperial coinage only. The stock was drawn on for other purposes on one occasion, which brought a reprimand from the Bank.

arranged for gold, i.e., an advance of 95% as soon as notice was received in London of delivery on board H.M.vessel and the balance after arrival, weighing, etc.*

On 15th August the Russians said that more silver could be made available, and the United Kingdom asked for a further 120 tons on the same terms as before, but allowed room for the British in Kubyshev to negotiate a higher price if they saw fit: silver in New York had gone up from 35 to 45 cents and we might well offer 24d. In fact, 27d. was agreed: the average price of the two consignments was thus 24d. which gave a profit of approximately $1\frac{1}{4}$d. per standard ounce on the London price (Note: V.C.T.26.8.1942).

In January 1943 the United Kingdom authorities asked how much Russian silver might be available in 1943, as they were engaged in difficult discussions with the Americans on the possibility of getting silver on Lend-Lease; but on the Ambassador's advice placed a firm order for 120 tons on the same basis as for the previous consignment. They still, however, wished enquiry to be made as to the possible total available for the whole of 1943.

On 26th February Kubyshev replied that 30 tons would be available at the official New York price on day of delivery (which worked out in favour of the United Kingdom so long as it and the sterling/dollar rate remained unchanged). Further supplies in the future were doubtful, but an enquiry for 10 million ounces was sent on 16th May. On the 11th August it was learned that the Soviet authorities could increase total shipments in 1943 to 50 tons.

The 50 tons were accepted but delivery was delayed a good deal by shipping difficulties. The last consignment, however, had arrived by the 6th January 1944.

In November 1944 the Treasury made enquiries about a further 10 million ounces but by 20th February 1945 had heard

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*The Bank reserved the right to make adjustments for any bars of fineness below .996.

heard from Moscow that no more would be available.

"Lend-Lease" Silver

The question of Lend-Lease silver began to come into the foreground early in 1942. The United States Government were a long while in reaching their decision to supply both the United Kingdom and India from their own stocks: they had to overcome internal political opposition (the Silver senators), and it was not until the summer of 1943 that the (so-called) Lend-Leasing of silver began. The story is complicated, but it was the realisation that an acute shortage of silver for British and Indian coinage had to be faced, with its serious consequences for the war effort, which led after a year and a half to the decision that silver should qualify, as a "material in short supply", for Lend-Lease. As we shall see, this description in the particular circumstances was something of a misnomer.

There was, at least in 1942, another metal in short supply - nickel, urgently needed for armaments manufacture. Whether or not the suggested substitution of silver for nickel in rupees (whose fineness had been reduced to .500 as recently as 1940) was likely to become an issue live enough to have moved American opinion does not appear; but the nickel question as it might affect both the United Kingdom and Indian coinages was discussed between Departments at the Treasury (2.3.1942). At the time it was known that the U.S.A. intended to substitute, in their 5 cent piece, half silver and half copper in place of the existing proportions of one

quarter

quarter nickel to three-quarters copper, a re-coinage which began in October 1942. In India political and other considerations weighed heavily against recovery of nickel from the rupee; in spite of which, however, the India Office stated that it was not open to question that if nickel should become desperately short, armament needs must take precedence over coinage, even in India. (The Empire consumption of nickel in coinage was then about 350 tons, of which India 250).

The loss of two shipments by enemy action at sea (in April 1942 and January 1943) deprived U.K. stocks of an addition of 4½ million ounces of Indian silver.

The suggestion that silver might be obtained under Lend-Lease appears to have first come from H.M.Treasury. But at the end of March 1942 Sir Frederick Phillips reported from Washington that the U.S.Treasury thought that the Silver Bloc would dislike such an arrangement. A straight loan might perhaps be obtained; but H.M.Treasury did not respond favourably to this suggestion. However, a few days later they cabled that the Ministry of Supply could use in the next 12 months up to 5 million fine ounces of silver in substitution for tin (mostly for solder) and for other materials in short supply. Could this be obtained under Lend-Lease? It then appeared that the U.S. Treasury had told the silver senators at the end of April that there would be no suggestion of repealing the Silver Purchase Acts; and Sir Frederick Phillips made it clear to London that silver could only be obtained (through Lend-Lease or otherwise) on an engagement to return ~~[illegible]~~ it eventually (as metal) London thought such an arrangement might be embarrassing, but would not mind an option without a definite commitment.

In June it was reported that some silver might be obtained from the New York market, as ~~some~~ part of the silver not required by the Treasury as backing for silver notes was expected to be made available. It would be necessary to prove that the silver would be more useful to the war effort in U.K. hands than in the U.S.A.: use for coinage would probably be considered more acceptable than for industrial purposes. Meanwhile, towards the end of May, there was talk of a rise in the

P.T.O.

price in New York. The U.S. Treasury were paying 71.11 cents per fine ounce for domestic production: foreign-produced silver supplies were quite inadequate to the demand, and there was some idea that the market price might be forced up to the domestic price.

The probable effect on India of such a rise was not entirely clear, but it was feared that, notwithstanding the theoretical independence of the New York, London and Bombay markets in war time, the Indian price would rise to the melting point for rupees, as hoarders would probably increase their purchases.

In August a price ceiling of $35\frac{3}{8}$ cents was imposed on the market; but raised to 45 cents on 31st August, apparently as a concession to Mexico. This price was equivalent to more than ~~24¾d.~~ 24¾ per standard ounce in London. No change was made in the London price, but purchases increased and there was considerable speculative buying in India; so much ~~as~~ that the Reserve Bank had temporarily to stop sales of fine silver.

At the end of September the Treasury was still in favour of keeping the London price at $23\frac{1}{2}$d., but the Indian Government were taking the line that they must increase their price to the U.K. India had, of course, been selling to London at a price much below the domestic price, the justification being that the metal was required for essential war purposes, whereas sales in India went into hoards. The Indian Government now felt that they could not justify selling to London at a price less than could be obtained in the U.S.A. A statement by Reuters, that the price to the U.K. was fixed by the British Treasury and not by the Government of India, had also had an unfortunate political effect.

In the opinion of the Bank it was impossible to challenge the Government of India's decision. Silver was an Indian question and played practically no part in the price structure of the U.K. The London price might of course be kept unchanged, but this would amount to a subsidy, and the Government might be charged with subsidising a luxury trade, although only a trickle of silver was used for luxury articles. It would also mean complete control of silver by the Board of Trade. The alternative of abandoning the Indian source of supply in favour of Lend-Lease was not liked by the Bank in view of the political implications of the silver racket in Washington. Hence there seemed no alternative to raising the price, and to do so again if the Americans put up their quotation.

The Treasury were still a little reluctant, and Lord Keynes suggested borrowing from India or buying with an option to resell at the same price after the war.

However, 12 million ounces were on their way from India, which it was claimed should be paid for at the old price, and India agreed. The Bank now pointed out that, allowing for the arrival of this consignment, the silver position would be such as to enable the price to be kept at 23½d. until May or June 1943. As, however, the price in India was around the point at which coins could be profitably melted, and the Indian Government were unlikely to be able to supply any more silver (confirmed by India in December), and as Maria Theresa dollars were not available, it seemed necessary to accept silver on Lend-Lease (for industrial purposes).

Application was therefore once more made to Washington, and it was reported that on 15th December the Secretary of the Treasury had actually announced that supplies would be made available to the Allies on Lend-Lease. Later, his legal advisers raised more difficulties, though stating that any silver obtained could be used for coinage or industry.

In the early part of 1943, as we have already seen, H.M. Treasury had become worried about supplies, and although the American Administration were desirous of assisting, it appeared that nothing could be done on Lend-Lease until their Appropriation Bill had been passed. They suggested in March that the U.K. should apply to Canada, even if this meant the stopping of Canadian shipments to the U.S.A., and obtain remaining requirements on the New York market. Some small amounts were obtained from Canada, but no success was experienced in purchasing on the New York market, where the supply was tight. Had such purchases been made, presumably at 45 cents, it was considered that the London price would

P.T.O.

have to be adjusted upwards, probably to 30d.per ounce standard. At last, however, it seemed probable that Lend-Lease supplies would be forthcoming, and in anticipation of their arrival the Treasury and the Bank took some steps to tighten their control of the market.

Meanwhile the Indian Government had become so short of silver (though this was not known to the public) that they were forced to discontinue sales to the U.K.and were anxious to secure supplies in the U.S.A. At the end of March 1939 the Indian Government had held 175 million ounces. They had sold 77 million ounces to the U.K.and their stock in March 1943 was only 41 million ounces, insufficient even for coinage needs. In April they had to stop minting. Claiming that their difficulties were the result of their past sales to the U.K.and Allied Governments, which they said had been "bitterly criticised" in India, the Indian Government proposed that any silver obtained from the U.S.should cost them only the price at which they had sold to London, and were also anxious that the London price should not be raised as this would be likely to increase the local demand. While, of course, sales to the Allies had reduced the supply, the main difficulty was on the demand side. It was the Japanese successes which first led to panic hoarding, and to the rise in the price in Bombay from 27½d.in November 1941 to 35½d.in July 1942, 48d.in November 1942 and 55-60d. by June 1943. The Japanese war also led to British purchases of supplies for the forces in India at the rate of some £250-300 million a year, which stimulated inflation and hence the rise in prices. The Indian Government, however, had been somewhat tardy in putting anti-inflationary measures into operation.

The rise in the Indian silver price also affected the Middle East. The .916 rupees could be melted at 48d., the .500 rupees at 89d.: Egypt, Persia and Palestine coins had finenesses of .833, .828 and .720, respectively. Egypt seemed likely to join in the request for Lend-Lease silver.

At the beginning of May 1943 the U.K.Treasury were thinking of requisitioning silver in the same way as gold had been

requisitioned

requisitioned under the Defence (Finance) Regulations, a measure considered before in 1941 ; but now the Senate Silver Committee agreed somewhat grudgingly* to let this country obtain silver on Lend-Lease and the prospect seemed brighter. The Bank obtained from the market an assurance of continued co-operation, and informed them that in the circumstances it was proposed to make no change in the London price. At this time the Treasury apparently considered suggesting that the silver obtained from India should be treated as a loan, and the sterling credited cancelled.

At the end of May a long telegram from the Viceroy emphasised India's difficulties, and probably helped to shorten the lengthy negotiations for Lend-Lease silver. Two weeks later there was alleged to be danger that the public generally might refuse to take Rupee notes: moreover, the capacity of the printing presses was strained to the utmost.

In June the Bank suggested that India might obtain some silver from Mexico. Discussions on this proposal continued on and off until about November, by which time it seemed clear that Mexico, also suffering from inflation, was short of silver herself.

There was now, however, no prospect of getting silver on Lend-Lease from the U.S. prior to the passage of a Bill known as the "Green Bill". This became law in July, and indirectly made 1,000 million ounces of silver available to the U.S. Treasury by enabling them to hold as part of the reserve against silver certificates industrial silver under their control in the U.S.A. The U.S.A. thereupon allotted 12 million ounces to the U.K.: some shipments had already been made during the negotiations, the first arriving in this country on 6th June. As regards terms, it was agreed on 14th July that the U.K. should return Lend-Lease silver "within 5 years after the end of the existing national emergency in the U.S.A. as determined by the President of the U.S.A." The same arrangement was eventually made as regards silver Lend-Leased to India.

In August the U.S.A. agreed to make 20 million ounces of

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*See Note 1. below (pp.)

silver available to India for coinage, to be shipped during the last 5 months of 1943. India, however, had asked for a further 100 million ounces to be used for sales on the market, as part of their anti-inflation campaign. This caused great difficulties, although the U.S.Administration were again fairly sympathetic, and an agreement to supply the silver was not reached until 12th January 1944. At one time the desire of the U.S.A.for Reciprocal Aid from India seemed to be put forward as a condition; at another, fears were expressed as to the form of Government that there might be in India when the return of the silver was due, and a preference was expressed for making the bargain with the U.K.instead of with the Indian Government. Eventually in April the U.K.were in fact asked and agreed to underwrite the Government of India.

The conditions for delivery of this silver, not only that it should be replaced ounce for ounce, but that the Indians' share should also be guaranteed by H.M.Government, were thus not closely in keeping with the original intentions of the Act of 1941*. At the request of the Indian Government the latter condition was kept secret, and was not disclosed to Parliament (though it leaked out in certain quarters). ~~The implied lack of confidence in India's pledged word was indeed insulting to Indians.~~ A further reason for secrecy was H.M.Government's reluctance to encourage extreme elements in India to repudiate Indian liability on the argument that this was England's war, anyway.

The Treasury representative in Washington pointed out that the likely official description of Lend-Lease silver as "a material in short supply" (Schedule A) would make it doubtful whether the U.K.should continue to export plate or silverware, or, indeed, any silver or silver compound the silver contents of which might have come from a Lend-Lease source. The U.K.agreed to Schedule A, provided no objection were raised to the export of coin for the Empire and Middle East. The U.S.A.were content with this.

The

*Admittedly, it was thought at the time that the replacement condition, though a requirement of the Americans, might eventually prove advantageous to the U.K.in removing a probable post-war surplus.

The U.K.then proceeded to bring the export of silverware, etc.under more effective control; and in August 1943 the Bank decided that it would be well that all applications for licences to export silver in a semi-manufactured state (e.g., solders, alloys, etc.) should be shown to them. In September they asked to see all applications for the export of materials containing silver, however small the percentage. With very few exceptions they recommended the export of silver only to the Empire, for essential war purposes, or for civilian health services.

The Export Licensing Department of the Board of Trade undertook responsibility for seeing that exports conformed to the provisions of the Act. All applications not clearly allowable for Lend-Lease reasons were refused by them without reference to the Bank. It was understood, however, that there were no objections to the export of silver antiques, or of other silver articles manufactured before the 14th August 1943.

As with gold, silver exports to Eire were only permitted against the import of an equivalent amount of scrap from that country, except for silver compounds required for health services and silver solder required for the repair and maintenance of bandsaws.

At the end of 1943 the U.S.A.asked Canada to cease supplying the U.K., and (because of its quality and price) to sell all their silver to the American Treasury for industry, leaving the U.S.A.to supply the U.K. The amount obtained from Canada had in any case been inclined to fall off owing to production difficulties, and the British Government raised no objection to this adjustment.

Lend-Lease supplies amounted to about 5 million ounces in the first half of 1943 and to nearly 12 million ounces in the second half year. Disposals during 1943 remained at approximately the same level as in 1942; but the Mint's demands fell from 23.3 million to 14.7 million ounces. The reduction was due to a decrease in the amount of Imperial coin minted: during 1942 this had frequently been as much as £250,000 per week, while during 1943 it varied between £100,000 and £150,000. The increase in the Market's requirements was largely caused by the use in essential war industries of silver as a substitute for tin in soldering processes, and to new uses found for the metal.

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After beginning the year 1944 with a stock of some $5\frac{1}{2}$ million ounces, by the end of January, with Lend-Lease silver the sole source of supply, the position again gave rise to anxiety. The stock in hand on 31st March had fallen to a little over 2 million ounces, but in early April shipments of American silver (15 million ounces in all for the first half year) had begun to arrive. A similar situation arose at the end of September, when the balance had fallen to 3.7 million ounces prior to the arrival of 18 million ounces for the second half year. The nearness of stocks to exhaustion point was solely due to the slowness of the Lend-Lease machinery.

Market requirements remained at about the same level as during 1943, averaging just over 1 million ounces a month. The Mint's needs showed a tendency to fall owing to a reduction in the amounts taken for Dominion and Colonial coinages.

Various silver-bearing ores were received (mainly by the Britannia Lead Company Limited and Mining & Chemical Products Limited). The silver content of these ores had been small, and as we have seen the importer was allowed to dispose of it on the market. But at the beginning of 1944 licences for the import of silver-bearing ores began to be issued, on the understanding that the silver content would be placed at the Bank's disposal, to be sold to one of the recognised brokers.*

In March India was again thinking of trying to get silver from Mexico, but the India Office opposed the idea strongly, and it was dropped. The Indian Government in April were selling at a price equal to 71.11 cents and did not intend to reduce the quotation: actually it went much higher. They found that they would have to use perhaps 30 million out of their 100 million ounces for coinage instead of for industry.

In October Mr.Bolton suggested that it was no longer

necessary

*And included by them in their monthly returns to the Bank (showing the manner of disposal of silver purchased by the Market for essential war industries).

necessary in the interests of India to subsidise the London price of silver ($23\frac{1}{2}$d.per ounce standard .925 fine). It was not in the national interest to keep the price unduly low in relation to the U.S. price. If the price were not raised there would be no imports: it should be lifted to parity with North America to ease the transition to a free market.

The quotation of silver by the standard ounce had long been an anachronism, and in November the market proposed to quote the fine ounce instead. The Bank approved of the change, but suggested that the fine ounce should be "1000" fine and not, as Mocatta & Goldsmid suggested, .999 fine. The quotation of .999 fine silver (the New York basis) was, however, selected, the change made on 2nd January 1945, and the price fixed at $25\frac{1}{2}$d., (the equivalent of the old price of $23\frac{1}{2}$d.for standard silver was 25.380d.).

The year 1945 opened with a balance of 15 million ounces in hand, and the U.S.appropriation of 14 million ounces arrived in April. The stock at the end of May was about 20 million ounces. Three months later, on the cessation of Lend-Lease, the U.K.had on hand sufficient silver to supply essential industries until well over the end of 1946. Until then the U.K.official price would have to keep pace with a rise in the price of foreign silver in New York (which rose to $55\frac{1}{2}$d.in August 1946).

On the other hand, including the underwriting of India's silver obligation to the U.S.A., H.M.G.had a liability to replace something like 400 million ounces within five years should the President make his declaration that the state of emergency had ended.

On 3rd February, after the decision to withdraw the silver in Imperial coin, the Market was left to fix its own price for silver, which at once fell from $55\frac{1}{2}$d.to 44d. The Coinage Act of 1946 enabled token coinage to be minted in cupro-nickel instead of silver, and the intention was to accumulate the released silver against the Lend-Lease silver obligation, the Treasury paying the current London price on the day of delivery.

In August 1947 the Convertibility crisis caused H.M.G.to re-enter the silver market, and to decide that from 1st December bullion dealers should no longer be able to buy in the cheapest market. The London market should thenceforward be supplied, for the purposes of essential home industry (including manufacture for export) from the silver withdrawn from the coinage, plus a small balance (less than 1 million ounces) left over from Lend-Lease days. It was to be sold at the price ruling on the New York market plus freight charges. This price remained at 45d.up to (at least) 9th June 1948.

The silver so obtainable was estimated at 250 million ounces, and annual requirements for the above purposes at 12 million.

Finally, to return to "Lend-Lease" supplies, so-called, the last few ounces of which formed part of the London market's silver in August 1947. Almost entirely dependent on this source of supply from August 1943 onwards, the U.K.received in all 88 million ounces and India 226 million.

The Joint Statement regarding Settlement for Lend-Lease said: "This settlement for Lend-Lease and Reciprocal Aid will be complete and final"; and the silver shipments in question, made available under Appropriations, were commonly referred to and had all the appearances of Lend-Lease metal. Moreover, in this particular connection, the U.S.President had not (up to October 1948) proclaimed that the "state of emergency" (5 years after which the silver should be replaceable) was at an end.

It would appear, perhaps, that the U.K.no longer faced even a contingent liability to replace the silver; but it must be questioned, in view of conditions for its delivery to the U.K. and India, which were specific and not general as in the Lend-Lease Act, whether it should all along have been regarded as "Lend-Lease" silver and not as a loan for a period fixed by the date of the end of the war and conditional on exact replacement.

Ref.W.141
C.C.P.354

SILVER COIN

In a letter written by the Deputy Governor to the Treasury on the 8th July 1937, it was pointed out that in the early part of the last war an embarrassing feature for some time was a shortage of silver and bronze coin, largely owing to the requirements of the Services and ~~of~~ munitions factories. An adequate reserve should therefore be provided against a similar emergency.

The Bank's arrangement with the Treasury, made in December 1936, was to treat £1 million silver as the normal holding of the Banking Department, but to allow it to increase up to £2 million in the autumn. Any excess over £2 million was to be held in the Issue Department, and if the Issue Department held more than £2 million, arrangements should be made gradually to reduce it to that figure.

The subject re-appears in May 1938, when the Bank thought a War Reserve of £1-£2 million in silver coin should be built up, to be held, if desired, in the Issue Department. The Mint at that time was working to capacity and would continue to be so occupied until the end of the year. ~~They~~ It therefore suggested accepting coin from certain Colonies, some of which had surpluses, and that the melting of old silver, both .925 and .500 "binary", should be temporarily discontinued. The bankers had rather more than normal supplies, and in July the Treasury and the Bank agreed to accept this proposal as regards the suspension of melting. It was thought that by the end of 1938 ~~it~~ this would produce about £½ million, and by the first quarter of 1939 it was hoped that the Mint would be able to raise ~~this~~ the figure by new coinage to about £1 million. In order to avoid going to Parliament with revised Mint estimates, however, the programme was not put into operation until the 1st October.

In 1938 the Mint produced altogether about £2.5 million of silver coin. No special reserve was opened by the Bank, but the silver available to them at the outbreak of war, coupled with a heavy minting programme in the next few months, sufficed to meet all requirements comfortably. The lowest Bank Return figure at this time was that for 27th September 1939, when Issue and Banking held £884,000, from which it rose to about double that amount early in December.

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In September 1938 the Clearing Banks appear to have suggested unofficially the issue of notes of smaller denominations than 10/-s. The Bank thought this would entail considerable extra work both on the other banks and themselves. Small notes might reduce transport but would not eliminate it if coin and postal orders should become legal tender. Other metals could replace silver and bronze coinage in the event of a shortage.

The disinclination of both the Treasury and the Bank to issue small notes persisted. Reasons given by the Chief Cashier early in 1941 ~~against their issue~~ included the certainty that German propaganda would allege a U.K. shortage of silver, or of foreign exchange, damage to the Mint, and inflation. He also mentioned the danger of forgery and the increase in claims for damage and destruction of notes that would be inevitable. The Treasury, in March 1942 referred to psychological difficulties, the additional labour involved in counting wages in factories, and at the Banks, and the shortage of suitable paper; and finally, in September, to the possible hoarding of silver coin.

Statistics at the end of this section ~~will~~ show that, by 1942 at all events, there was a large expansion, compared with pre-war standards, in the Mint's output. But the Bank, except for a few short periods, were never free from anxiety, and were continually having to urge the Mint ~~on~~ to greater efforts. There were two causes for anxiety. On the one hand, following the outbreak of war demands from the banks for coin increased, arising from the same main causes as the increase in the note issue, variations in which are normally reflected proportionately in the circulation of silver and bronze.* The principal factors affecting all three forms

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*But not necessarily fully proportionate to a very large increase in the note circulation containing a considerable element of hoarding. This is borne out by the statistics: between 1938 and 1946 the total of Notes (Bank of England, Scottish and N.Irish) outstanding increased from £558 million to £1,487 million and the estimated circulation of coin from £77 million to £138 million (all annual averages). Thus an expansion of 167% in notes was accompanied by one of 80% in coin.

forms of circulating media were the large increase in total production and employment, the rise in prices and in earnings. There were altogether a very large number of "frictional" causes of an uneconomically swollen circulation; but these are more conveniently discussed when dealing with the note issue. There was doubtless more actual loss of coin than usual, and coin taken out of the country would of course fail to return as quickly as usual. ~~On the other hand~~ Again, as the foregoing pages have shown, the supply of bullion, while at no time easy, frequently presented acute difficulties.

The Mint, often supported by the Treasury, were dominated by the fear of a post-war surplus, for dealing with which no ready-made solution seemed, in the early years of the war, likely to be found; besides which they were constantly harassed by domestic difficulties, of which labour and the competing claims of Empire and foreign orders were the most important. Their line with the Bank was generally that the Bank's estimates of future public demand were exaggerated; and that the commercial banks were holding excess quantities of coin in their tills.

On the former contention, it can only be said that the Bank's estimates generally proved well-grounded; while ~~as regards the commercial banks, on which point~~ the Mint usually received strong support from the Treasury, when approaches were made to ~~them~~ the commercial banks from time to time urging them to reduce their demands. The reply often made by the Clearing and Scottish Banks was that the most effective means of reducing their demands for coin would be for the Services and Government war factories themselves to abandon, or at least greatly reduce, their claims to have silver sorted into denominations. Although from time to time the matter was taken up with the appropriate authorities through the Treasury, an admission that such sorting was not essential was never forthcoming.

Whether through their own efforts to economise or because enough new coin was not forthcoming, the banks did effect a very substantial reduction in their holdings of coin. The annual average (of monthly figures returned to the Bank) fell from about £18½ million in the immediate pre-war years to £15¼ million in 1945. Regarded as a proportion of the total coin outstanding this reduction ~~is~~ was almost revolutionary. A proportion which had been about 1 : 5 almost long enough to be called traditional (it was, in fact, rather more than 20% in the last few pre-war years) had fallen, by 1945 to 12%.

One special example of the banks' efforts may be given. In the spring of 1942, on evidence of maldistribution of their holdings, the Scottish banks were asked to co-operate and succeeded in reducing their total holdings by £500,000.

Considering the wartime history of silver coin chronologically, it can be said that the first year, apart from momentary anxiety over the rate of outflow on the outbreak of war, was as easy as any subsequent year. In general, Mint production was adequate. But the bombings in the autumn of 1940 both damaged the Mint itself and also greatly interrupted the gas supply on which at that time the Mint were entirely dependent. Production ceased completely for a short time, was much reduced for a longer period, and the position became acute. It was then that the Bank put in hand the printing of "silver notes", of which 8 million of 5/- and 8 million of 2/6 were provided as a start. At the same time the Mint took steps to introduce oil as an alternative fuel, and started the preparation of an emergency factory in the country (Iver). They found it possible to resume production before the necessity for issuing the "silver notes" had arisen.

The next crisis arose in February 1941. This time the supply of silver bullion was the cause, the Mint reserves running so low as to cause them to be within a week of having to cease work. The immediate problem was met by the Indian Government's consenting to release part of their reserve (see above) and by a small purchase in America, costing dollars - an unpopular remedy. Though in the long run the difficulty was met by increased shipments from India, the loss by sinking of 3 million ounces was the cause of yet another acute crisis, when the Bank went so far as to distribute the

"silver

"silver notes", printed in the previous autumn, throughout the country. They were deposited largely with the Clearing Banks, on whom they were calculated to ~~produce the~~ effect ~~of~~ a ~~reduced~~ reduction in their till holding of silver. Again it proved unnecessary to issue ~~them~~ the notes and, in fact, they were never issued ~~during the war (or, so far, since)~~.

In the summer of 1941 the Bank, following a meeting with the Treasury and the Mint, issued a notice to the banks announcing an extension of the "Provincial Mixed" arrangements whereby a bank could send in mixed coin from any branch, including London offices, and have the equivalent in denominational coin sent to any office in the country, both operations being free of charge. At the same time the charge for coin withdrawn from London (without an equivalent deposit) was raised from 3^{s}/- to 5^{s}/- per £100; the aim, of course, was to facilitate distribution whilst penalising withdrawals.

For the rest of this year and throughout 1942 the position was often uncomfortable. At practically no time was the Bank in a position to meet in full the demands made on them and bankers were accordingly fed piecemeal as supplies became available from the Mint.

Proposals made about this time included one that the Bank should set up an organisation for sorting mixed coin into denominations at one of their northern Branches; but the figures of coin likely to be available for such sorting did not justify the despatch of machines and staff to deal with it. On the other hand, it was agreed to pay to outside banks, who undertook the sorting of mixed coin, the transit charges incurred by them in despatching the sorted coin to their other branches on Government account. This move did not, of course, reduce the demands for silver since the process could have been equally well carried out by the Bank in London under the "Provincial Mixed" arrangements, but it did serve to reduce the demand for transport to and from London.

1943 in general was easier, though the pre-Christmas demands were only met with difficulty and the Bank had to exercise continual pressure on the Mint. To some extent the general improvement could be attributed to a meeting which took place at the Treasury in the summer,

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at which representatives of the Clearing Banks were invited to discuss the various possibilities for reducing demand. In the upshot the banks decided on concerted measures designed to reduce their till holdings by £1½ million; a result which they achieved - and maintained.

The year also saw the supply position greatly eased. New sources of supply, including Russia, became available and a windfall was forthcoming in the form of Maria Theresa dollars which had been minted for the Abyssinian campaign and which had subsequently proved surplus to requirements; this coin came to be regarded as a potential reserve. The improvement, however, was also largely owing to America's decision, following prolonged negotiations which had first commenced in the early part of 1942, to provide silver on Lend-Lease terms, and it was solely on this supply that the Bank, since the middle of 1943, depended for their needs. But because of the delay which occurred in the U.S.A. on each occasion when supplies were needed, it proved necessary to open negotiations for a fresh allocation as soon as the previous allocation had been received.

The increased volume of work on silver coinage, particularly in 1941-43, is reflected in the following statistics of Imperial and other Silver coin struck at the Royal Mint, London, during the six years 1939-1944 (Annual Reports of the Royal Mint).

Year	No.of pieces struck (000's)			Sterling Value (000's)		
	Imperial	Dominion, Colonial, etc.	Foreign	Imperial	Dominion, Colonial, etc.	Foreign
				£	£	£
1939	87,677	14,043	11,375	5,819	731	718
1940	86,456	28,891	4,766	5,785	979	364
1941	90,774	32,234	2,984	6,068	930	212
1942	151,338	23,573	-	10,624	not given	-
1943	111,715	31,821	9,200	6,856	" "	not given
1944	104,414	9,831	-	6,754	" "	" "

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These figures relate only to silver. Where the pressure on the Mint really lay is ~~seen~~ clear when the figures for other token coinage (nickel, bronze, nickel-brass and nickel-bronze) are seen by their side:-

Pieces struck (millions)

	Silver for			All other coin for			All coin
	U.K.	Other countries	Total	U.K.	Other countries	Total	
1939	88	25	113	122	94	216	329
1940	86	34	120	94	115	209	329
1941	91	35	126	135	99	234	360
1942	151	23	174	211	177	388	562
1943	112	41	153	213	316	529	682
1944	104	10	114	219	151	370	484

The peak for silver was reached in 1942, predominantly to meet U.K.demand. For other coin the greatest strain came in 1943, when coinage for other countries was well over three times as large as in 1939, but was halved in the following year. In 1942-44 U.K. requirements of bronze and nickel brass seem to have steadied at upwards of 200 million pieces. The branch mints in Canada, Australia and India bore a heavy share of coinage for the Empire as a whole. In the six years they struck between them some 6,660 million pieces compared with the London's 2,750 million. In 1942 the Royal Mint in London worked a double shift for nine months, and in 1943 throughout the year.

Note 1.

Quotation from letter by Chairman of Senate Special Silver Committee, end April 1943

"..... The only precedent for supplying Treasury's silver to a foreign nation was in 1918 when Great Britain acquired approximately 210 million ounces at a cost of one dollar an ounce for coinage into rupees. In that instance silver was needed to redeem paper rupees which the Bank of India had issued in excess of available coins. This transaction not only stopped a run on the banks but actually prevented a revolution. Unfortunately in 1920 at the instance of Great Britain, the silver content of rupees was reduced over 52% and the redundant silver shipped to Shanghai where it was auctioned off, this action resulting in lowering the market price of silver 50% and marked the beginning of the abandonment by China of the silver standard. The history of Great Britain's manipulations in the fields of international exchange and currencies is not an enviable one".

The Bank drew up a note replying to this which, as amended by the India Office, follows. There is nothing to show whether or not this document ever reached the American authorities.

Silver

The following information is relevant to the remarks attributed to the Senate Special Silver Committee in Washington.

1. The price charged by the American authorities for the silver sold to Great Britain under the Pittman Act of 1918 was approximately the then current market price.

2. It was needed primarily to meet increased demands for currency due to the general expansion in purchasing power in India in consequence of the war.

3. The silver content of the rupee was not reduced in 1920 or at any other time until 1940.

4. "Redundant Silver": India was a net importer of silver in every year from 1919 to 1929. The amounts are as follows:

		Fine ounces (millions)
Total imports* of silver into India -		
5 years 1919/1924	390.8	
5 years 1924/1929	532.8	
		923.6
Total exports* of silver from India -		
5 years 1919/1924	55.3	
5 years 1924/1929	92.0	
		147.3
Net import* of silver over 10 years		776.3

*Government and Private.

5. The price of silver

The highest price quoted in the various calendar years was as follows (in pence per standard ounce London):-

1919	79 1/8
1920	89 1/2
1921	43 3/4
1922	37 3/8
1923	33 11/16
1924	36 1/16

Over

Over the years 1919/1924 the general wholesale price index (1913 = 100) moved as follows in the U.K.and the U.S.A.

	U.K.	U.S.A.
1919	— Not quoted —	
1920	307	221
1921	197	140
1922	159	139
1923	159	144
1924	166	141

The fall in the wholesale price index was, therefore, nearly as steep as in the price of silver and, both in the case of the U.K.and the U.S.A., the great bulk of the decline took place in the years 1920 and 1921, as happened in the case of silver. This had nothing to do with sales of the metal on Indian account but was part of a world process consequent on the war of 1914-1918.

27.5.43.

Note 2.

Maria Theresa Dollars (Thalers)

These are not strictly speaking coins, since they have never been legally part of any country's currency system, but bullion of a convenient (and easily recognisable) kind, and their value therefore depends mainly on the current price of silver.

They were first issued in the late sixties of the 18th Century in Austria-Hungary, and bear the effigy of the Empress Maria Theresa. Their object was, and is, to facilitate trading in the Near East, and they never circulated in their country of origin. They are of attractive appearance, reliable weight, and have a fineness of .833. During the war they circulated largely in Abyssinia[x] and were in demand by the Allies to foment disturbances during the Italian occupation of that country. How far they were used for this purpose does not appear.

Messrs.Johnson Matthey & Co.had opened a branch in Vienna in 1926 and soon the business of supplying the thalers was, according to their story, concentrated in their hands. They claimed that by 1934 they had held a monopoly.

At the outbreak of the Italo-Abyssinian war, however, the

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[x]The Chancellor stated in the House on 11.9.41 that 4.7 million Thalers had been minted in London since the outbreak of war, for use in Abyssinia.

monopoly was transferred by Austria to the Italian Government. The latter wished only lire notes to circulate in Abyssinia, and gave no orders for thalers. But the demand persisted, especially in territories adjoining Abyssinia, such as Arabia, the centre of distribution being Aden. They were used to finance various commodities which were nearly all shipped to the U.K. Johnson Matthey & Co.therefore approached the Royal Mint, who began to manufacture thalers for them. Some other countries also began to mint the coins, but these were said to be of inferior quality, so that Johnson Matthey & Co.'s business was not much affected.

Soon after the outbreak of the war the British Government took full control of the Mint's output, and hence of the thalers. They apparently did not consult or advise Johnson Matthey & Co., who felt that they had a grievance and asked the Bank's assistance in protecting their interests, present and future. The Bank were not very sympathetic (L.26.2.41) and the Mint (L.4.3.41) disputed the statement that Johnson Matthey & Co.had any monopoly at the Mint. The Bank then advised Johnson Matthey & Co.that in the Government's view it could not reasonably be maintained that any of the firm's rights or interests had been infringed and that no guidance could be given as to future prospects (L.11.3.41).

The Military Authorities in the Middle East had asked for the supply of thalers to be doubled from January 1941, and the Indian Mints were now employed to produce about 1 million coins a month. The Royal Mint were to stop their own production as soon as a reserve of 2 million dollars had been built up at Aden.

By the end of the year the War Office had accumulated some 20 million thalers, and the Bank thought that some could be shipped home to serve as an emergency supply of silver. The Treasury preferred to keep the coins in the Middle East as there was a question of a possible subsidy to the Emperor of Abyssinia, part of which might be paid in thalers.

At the end of the following October, however, it was the turn of the Treasury to urge the shipment of the coins to England

to the

to the amount of say, 10 or 15 million. They claimed that the thalers had never been used for the purposes for which they had been intended. The Bank now pointed out that while the coins had not been much used before, they were now being increasingly circulated, and that there were no other coins available to replace them.

Six months later, however, (March 1943 the Treasury asked the War Office to bring back some 3 or 4 million thalers; but towards the end of May, before these could arrive, the American Embassy in London suggested that they would be useful for buying cereals and hides in Ethiopia, and that it was a pity to melt them! The equivalent amount of silver might be Lend-Leased. On this being put up to the U.S.Treasury the concession was made. It was, however, too late to stop the shipment.

In 1942-3 the sterling value of thalers in Cairo rose, but habit kept thaler prices in Ethiopia much the same. The small stock left was used for purchases of hides, rubber, and cereals.

In February 1944 the War Office wished to dispose of some 2,900,000 fine ounces of silver in the form of thalers, half held in Cape Town and half at the Bank of England. The stock of coin in the Middle East was then about 10 million. The Treasury paid $3^{s}/-$ per coin, (though the Bank pointed out that they were worth only $1^{s}/7\frac{1}{2}^{d}$) and also decided that they could be held by the Exchange Equalisation Account. The deal was completed in July.

Please: (1) add figures for 1939 and 1940 if available - Not available
(2) complete to end of 1945.
Completed.

RECEIPTS AND DISPOSALS OF SILVER 1941/~~MAY 31ST~~ 1945

(In Fine ounces - 000's omitted)

	RECEIPTS											DISPOSALS*			
	PURCHASES									LEASE-LEND	TOTAL	TO MINT		TO MARKET	TOTAL
	London	U.S.A.	Australia	Hong Kong	Greece	Chile	India	Russia	Canada			Imperial Coinage	Overseas Coinage		
1941	270	1,033	2,158	1,807	1,741	70	15,003				22,082	2,589	5,867	2,716	11,172
1942							29,980	7,711			37,691	20,129	3,184	7,092	30,405
1943	4							963	4,371	15,074	20,418	11,379	3,350	12,433	27,162
1944								642	187	33,000	33,829	11,769	836	13,059	25,664
1945										40,000 ~~[illegible]~~ ~~14,000~~	40,000 ~~[illegible]~~ ~~14,000~~	14 380 ~~[illegible]~~	2296 ~~2,086~~	10,530 ~~5,250~~	27,206 ~~[illegible]~~ ~~9,257~~
	274	1,033	2,158	1,807	1,741	70	44,983	9,316	4,558	~~[illegible]~~ ~~62,074~~ 88,074	~~[illegible]~~ ~~128,014~~ 154,014	~~47,778~~ 60,246	~~15,325~~ 15,533	45,830 ~~40,559~~	~~[illegible]~~ ~~103,660~~ 121,609

*Losses by enemy action.

April 1942 - s.s."Benmohr" (Indian Silver)		1,499
January 1943 - s.s."City of Cairo"	do.	2,998
		4,497