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ROYAL COMMISSION ON INDIAN CURRENCY
AND FINANCE.

VOL. I.



REPORT

OF THE

ROYAL COMMISSION ON INDIAN
CURRENCY AND FINANCE.

*Presented to Parliament by
Command of His Majesty*

LONDON:

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THE ROYAL COMMISSION.

GEORGE R.I.

GEORGE THE FIFTH, by the Grace of God, of the United Kingdom of Great Britain and Ireland and of the British Dominions beyond the Seas King, Defender of the Faith, Emperor of India, to

Our Right Trusty and Well-beloved Counsellor EDWARD HILTON YOUNG, Companion of the Distinguished Service Order, upon whom We have conferred the Decoration of the Distinguished Service Cross, Lieutenant-Commander, lately of Our Royal Naval Volunteer Reserve; and

Our Trusty and Well-beloved :—

Sir RAJENDRANATH MOOKERJEE, Knight Commander of Our Most Eminent Order of the Indian Empire, Knight Commander of the Royal Victorian Order;

Sir NOROOT HASTINGS YEELES WARREN, Knight Commander of Our Most Eminent Order of the Indian Empire;

Sir REGINALD ARTHUR MANT, Knight Commander of Our Most Eminent Order of the Indian Empire, Companion of Our Most Exalted Order of the Star of India, Member of the Council of India;

Sir MANECKJI BYRAMJI DADABHOY, Knight Commander of Our Most Eminent Order of the Indian Empire, Member of the Council of State;

Sir HENRY STRAKOSCH, Knight Commander of Our Most Excellent Order of the British Empire;

Sir ALEXANDER ROBERTSON MURRAY, Knight, Companion of Our Most Excellent Order of the British Empire;

Sir PURSHOTAMDAS THAKURDAS, Knight, Companion of Our Most Eminent Order of the Indian Empire, Member of the Legislative Assembly;

JAHANGIR COOVERJEE COYAJEE, Esquire, Professor of Political Economy and Philosophy in the Presidency College at Calcutta; and

WILLIAM EDWARD PRESTON, Esquire :

GREETING !

Whereas We have deemed it expedient that a Commission should forthwith issue to examine and report on the Indian Exchange and currency system and practice, to consider whether any modifications are desirable in the interests of India, and to make recommendations :

Now know ye, that We, reposing great trust and confidence in your knowledge and ability, have authorised and appointed, and

do by these Presents authorise and appoint you, the said Edward Hilton Young (Chairman); Sir Rajendranath Mookerjee; Sir Norcot Hastings Yeeles Warren; Sir Reginald Arthur Mant; Sir Maneckji Byramji Dadabhoy; Sir Henry Strakosch; Sir Alexander Robertson Murray; Sir Purshotamdas Thakurdas; Jahangir Cooverjee Coyajee and William Edward Preston to be Our Commissioners for the purposes of the said inquiry :

And for the better effecting the purposes of this Our Commission, We do by these Presents give and grant unto you, or any three or more of you, full power, at any place in Our said United Kingdom of Great Britain and Ireland, or in India, to call before you such persons as you shall judge likely to afford you any information upon the subject of this Our Commission; and also, whether in our said United Kingdom, or in India, to call for information in writing, to call for, have access to and examine all such books, documents, registers and records as may afford you the fullest information on the subject, and to inquire of and concerning the premises by all other lawful ways and means whatsoever :

And We do by these Presents authorise and empower you, or any one or more of you, to visit and personally inspect such places as you may deem it expedient so to inspect for the more effectual carrying out of the purposes aforesaid :

And We do by these Presents will and ordain that this Our Commission shall continue in full force and virtue, and that you, Our said Commissioners, or any three or more of you, may from time to time proceed in the execution thereof, and of every matter and thing therein contained, although the same be not continued from time to time by adjournment :

And We do further ordain that you, or any three or more of you, have liberty to report your proceedings under this Our Commission from time to time, if you shall judge it expedient so to do :

And Our further will and pleasure is that you do, with as little delay as possible, report to Us under your hands and seals, or under the hands and seals of any three or more of you, your opinion upon the matters herein submitted for your consideration.

Given at Our Court at Saint James's the Twenty-fifth day of August, One thousand nine hundred and twenty-five, in the sixteenth year of Our Reign. By His Majesty's Command.

W. JOYNSON-HICKS.

ROYAL COMMISSION ON INDIAN CURRENCY
AND FINANCE.

The Cost of Printing and Publishing this Report is estimated by the Stationery Office at £194 5s. 0d; and the total cost of the Commission is estimated at about Rs. 3,31,000.

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ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE.

REPORT TO THE KING'S MOST EXCELLENT
MAJESTY.

MAY IT PLEASE YOUR MAJESTY,

We, the undersigned Commissioners appointed to examine and report on the Indian exchange and currency system and practice; to consider whether any modifications are desirable in the interests of India; and to make recommendations; humbly submit to Your Majesty the following Report:—

I. INDIAN CURRENCY SYSTEM.

Historical Retrospect.

1. The history of Indian currency is fully summarised in the Reports of the Herschell, Fowler, and Babington-Smith Committees, and the Chamberlain Commission, and it is brought up to date in the memoranda on the subject prepared by the Secretary to the Government of India in the Finance Department and the Financial Secretary of the India Office which are printed in an appendix* to this Report. The whole narrative need not be repeated here. Our historical retrospect will be confined to a brief review of those facts and events of the past which chiefly influence the present and serve as a guide to the future.

2. Before 1893 India had a mono-metallic system with silver as the standard of value. In order to avoid the embarrassing fluctuations in the rate of exchange with gold standard countries, which were caused by the fall in the price of silver, it was decided in 1893, in accordance with the recommendations of the Herschell Committee, to close the mints to the free coinage of silver. The stoppage of silver coinage was followed by an appreciation of the rupee, and by 1898 it had reached the level of 1s. 4d. The rupee remained unlimited legal tender, and was the standard of value for all internal transactions.

3. The policy adopted in 1893, by the closing of the mints to the free coinage of silver, had for its declared object the establishment of a gold standard for India, and the Fowler Committee (appointed in 1898) was invited to consider how this object could best be secured. The relevant recommendation of the Committee was as follows:—

Paragraph 54. " We are in favour of making the British sovereign a legal tender and a current coin in India. We also consider that, at the same time, the Indian Mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian Branches of the Royal Mint. The result would be that, under identical conditions, the sovereign would be coined

* Appendices Nos. 3 and 69.

and would circulate both at home and in India. Looking forward as we do to the effective establishment in India of a gold standard and currency based on the principles of the free inflow and outflow of gold, we recommend these measures for adoption."

4. This recommendation was accepted by the Secretary of State and the Government of India, and the effective establishment of a gold standard based on a gold currency thus became the recognised object of the Government of India and its advisers. But the Government's first attempt to introduce gold into circulation was not a success, and the Indian Currency system developed in the years that followed along lines different from those foreseen in 1898. Gold never became a substantial part of the circulation. Apart from small change, the internal currency consisted almost entirely of tokens, one printed on silver, the rupee, and the other on paper, the currency note. Their value was maintained at 1s. 4d. gold (there was during this period no difference between sterling and gold) by the offer of the Secretary of State to sell bills on India without limit of amount at 1s. 4½d. and by the sale of drafts on the Secretary of State on occasions when owing to temporary variations in the currents of trade, exchange tended to fall below the 1s. 4d. level. The latter process was not, however, the subject of a statutory obligation, nor was it in practice carried out as a matter of course; e.g., the Secretary of State had to be consulted before offers of reverse remittance were announced, and the Government of India never went so far as to undertake to offer sterling drafts in all circumstances. The standard thus evolved was commonly known as a gold exchange standard, although in truth in so far as it amounted to a definite standard at all, it was a standard of sterling exchange. It was in operation at the beginning of the war in 1914.

5. The Chamberlain Commission, which was appointed in 1913 to enquire, among other things, whether the then existing practice in currency matters was conducive to the interests of India, reported *inter alia* as follows:—

Para. 223.—(iv) "The time has now arrived for a reconsideration of the ultimate goal of the Indian currency system. The belief of the Committee of 1898 was that a gold currency in active circulation is an essential condition of the maintenance of the gold standard in India, but the history of the last 15 years shows that the gold standard has been firmly secured without this condition.

(v) It would not be to India's advantage to encourage an increased use of gold in the internal circulation.

(vi) The people of India neither desire nor need any considerable amount of gold for circulation as currency, and the currency most generally suitable for the internal needs of India consists of rupees and notes.

(vii) A mint for the coinage of gold is not needed for purposes of currency or exchange, but if Indian sentiment genuinely demands it, and the Government of India are prepared to incur the expense, there is no objection in principle to its establishment either from the Indian or from the Imperial standpoint : provided that the coin minted is the sovereign (or the half-sovereign); and it is pre-eminently a question in which Indian sentiment should prevail.

(viii) If a mint for the coinage of gold is not established, refined gold should be received at the Bombay Mint in exchange for currency.

(ix) The Government should continue to aim at giving the people the form of currency which they demand, whether rupees, notes, or gold, but the use of notes should be encouraged.

(x) The essential point is that this internal currency should be supported for exchange purposes by a thoroughly adequate reserve of gold and sterling."

Thus, in effect, the Chamberlain Commission, in its recommendations, abandoned the ideal of a gold standard based on a gold currency, and accepted in its place an exchange standard with an excrescent currency of sovereigns not essential to the working of the system. Owing to the outbreak of the War, no action was taken on these recommendations.

6. The War of 1914-18 put the currency system of India, in common with those of all other countries, to a severe test. The price of silver rose to unprecedented heights, and the material of the silver token became worth more than its face value. The Government found it difficult to continue their unlimited offer of rupees at the long-established rate. There was a keen demand for Indian exports, and there were exceptional disbursements to be made on behalf of the British Government. Internal currency had to be in some way provided, and it could no longer be provided on the old terms. Confronted with these difficulties, the authorities allowed the rupee, so long anchored at 1s. 4d., to break loose from its moorings and follow the course of silver prices. The rate of exchange accordingly rose rapidly until it reached 2s. 4d. (sterling) in December, 1919.

7. The Babington-Smith Committee was appointed in May, 1919, when the rate was 1s. 8d., "to examine the effect of the War on the Indian Exchange and Currency

system and practice, to consider whether, in the light of this experience and of possible future variations in the price of silver, modifications of system or practice may be required; to make recommendations as to the policy that should be pursued with a view to meeting the requirements of trade, to maintaining a satisfactory monetary circulation, and to ensuring a stable gold exchange standard." These terms of reference precluded the Committee from considering alternative standards of currency. The Committee accordingly directed its attention to the re-establishment of stability under the then existing exchange standard, a stability which had suddenly been overthrown by the unprecedented rise in the price of silver and by the divorce of sterling from gold. Taking into account the high range of silver prices and the importance of safeguarding the token character of the rupee they recommended the stabilisation of exchange at 2s. (gold). They further recommended that during periods of exchange weakness, the Government of India should be authorised to announce, without previous reference to the Secretary of State, their readiness to sell weekly a stated amount of reverse councils.

8. These recommendations were accepted by the Secretary of State. The publication of the Report, in February, 1920, coincided with a keen demand for remittances to London, and steps were at once taken to maintain the new exchange rate of 2s. gold recommended by the Committee by the offer of reverse councils at a rate founded on that ratio, allowance being made for the depreciation of sterling in terms of gold, as shown by the dollar-sterling exchange. The rates for reverse councils offered by the Government thus varied from 2s. 3 $\frac{1}{2}$ d. (sterling) to 2s. 10 $\frac{1}{2}$ d. (sterling). By the Indian Coinage Amendment Act (Act XXXVI of 1920) the sovereign was made legal tender at Rs. 10. The attempt to hold the rate at 2s. gold was not successful; and the Government thereupon tried, with effect from the weekly sale on the 24th June, 1920, to maintain it at 2s. sterling. This attempt also failed, and was abandoned on the 28th September. The Government of India at this period were unable to contract currency in India at the pace at which world prices were falling. All they could do was to avoid further inflation and to effect some measure of contraction. This was insufficient to arrest the falling tide of exchange, which early in 1921 fell below the low level of 1s. 3d. sterling and 1s. gold. The 2s. ratio, passed in 1920, remained on the statute-book, and was ineffective for purposes of tender of gold to the currency office. By January, 1923, the tide had definitely turned; exchange recovered to 1s. 4d. sterling, and showed a general tendency to move upward. It reached the level of 1s. 6d. sterling in October 1924, at which time it was equivalent to about 1s. 4d. gold. From that time till March 1926, the upward tendency of

exchange continued, but it was prevented from rising above 1s. 6d. by free purchases of sterling on the part of Government. Meanwhile sterling was restored to parity with gold about the middle of 1925 and during the 12 months which have since elapsed the rupee has been in the neighbourhood of 1s. 6d. gold.

9. Such are the salient features in the history of Indian currency to which attention is necessary in order clearly to apprehend the present, and reasonably to plan for the future. Our task is to examine whether any modifications are desirable in the conditions and practice which have come into being as a result of that process of gradual evolution which has been briefly described. For this purpose we must analyse the existing state of affairs both in its economic aspect, which is that of the standard of currency, and in its administrative aspect, which is that of the authority to control the currency. The object of the analysis is to determine the advantages of the existing system and its defects. When its characteristics have thus been distinguished we shall deal with the various remedies that might be applied for the removal of the defects, and we shall explain in full the proposals which we make for that purpose. In a further section of the report we shall deal with the question of the rate at which the rupee should be stabilised.

The Existing System.

10. At the present time Indian currency consists of two kinds of token, paper notes and silver rupees, which are mutually convertible. The paper note is in form a promise by the Government of India to pay to the bearer on demand a specified number of rupees. The rupee is a silver coin 180 grains in weight and eleven-twelfths fine. In addition to these two kinds of token, the sovereign is by statute legal tender for Rs. 10, and the Government is under an obligation to pay Rs.10, when sovereigns are presented for encashment. As, however, the price of gold is considerably above this parity, the sovereign has disappeared from circulation and is not issued by or tendered to Government.

11. The value of both forms of token currency in relation to sterling is at present being maintained between the gold points corresponding to a gold parity of 1s. 6d. No obligation has been assumed, but the Government as currency authority have freely purchased sterling when the rate has stood at 1s. 6 $\frac{1}{4}$ d., and recently, in April, 1926, authorised the Imperial Bank, to make an offer on their behalf to sell sterling at 1s. 5 $\frac{1}{4}$ d. The stability of the gold value of the rupee is thus based upon nothing more substantial than a policy of the Government, and at present that policy can be found defined in no notification or undertaking by the Government. It has to be implied from the

acts of the Government in relation to the currency, and those acts are subject to no statutory regulation or control.

Reserves.

12. For the purpose of maintaining the value of the token currency, the Government of India hold two reserves—the Paper Currency Reserve and the Gold Standard Reserve. The former is composed of the proceeds of the note issue and is held as a backing against the notes in circulation; the latter has been accumulated from the profits of the coinage of silver rupees and is designed primarily to maintain the external value of those coins. The permanent constitution of the Paper Currency Reserve provides for a holding of gold and silver metallic reserves of not less than 50 per cent. of the total note circulation, and for the balance to be held in rupee and sterling securities. These permanent provisions have not yet become operative, and in the meanwhile the reserve is governed by transitory provisions under which the fiduciary portion is limited to a maximum of 100 crores of rupees, and the balance of the reserve is held in gold and silver coin and bullion. The actual constitution of this reserve on the 30th April, 1926,† was as follows :—

	<i>Rs. Crores.</i>
Silver coin	77·0
Silver bullion	7·7
Gold coin and bullion	22·3*
Rupee securities	57·1
Sterling securities	21·0*
	185·1

The Gold Standard Reserve at present amounts to £40,000,000. It is invested in British Treasury bills and other sterling securities.

Up till April, 1923, the interest on the investments in the Gold Standard Reserve was allocated to the purpose of strengthening the reserves. But since April, 1923, the interest has been credited to the revenues of the Government. Similarly, though the Paper Currency Act of 1920 provided that the interest derived from the securities in the Paper Currency Reserve should be applied to the strengthening of the reserves, this provision has never been put into operation.

† Throughout the Report, the references to the constitution of the Reserve are based upon the figures of 30th April 1926. There has been some variation since that date.

* Converted at the statutory rate of 2s. per rupee.

Functions of Reserves.

13 There is no clear line of demarcation between the purposes for which the two reserves are respectively utilised, and a certain amount of overlapping is unavoidable owing to the interchangeability of rupees and notes. Thus, though the original function of the Paper Currency Reserve was to provide for the convertibility of notes into rupees, this function became of necessity supplemented by that of maintaining the external value of the notes. On the other hand, while the original function of the Gold Standard Reserve was to maintain the external value of the silver rupee, its use operates to some extent in maintenance of the external value of the notes.

14. The maintenance of the convertibility of the note into silver rupees of the present fineness is only possible so long as the price of silver remains at such a figure that the bullion value of the rupee is not higher than its exchange value: that is, at the existing exchange value, the system would be upset if the price of silver were to rise above 48d. per standard ounce.

15. The efficiency of the reserves for the stabilisation of the external value of the rupee depends upon their maintenance at an adequate size, and upon their use in an effective manner. In principle they must be big enough to enable the currency authority to discharge the obligation to sell sterling to any amount required in return for notes and rupees, they must be used for that purpose promptly and without condition, and the sales must be accompanied by an equivalent contraction of domestic currency. In the Indian system these principles have not at all times been clearly recognised, and they are not now, and never have been, adequately supported and enforced by statutory provisions. There is no provision as to any organic relation between the total volume of token currency and the amount of the reserves. So far as the note issue is concerned, the statutes provide for no minimum percentage of gold or sterling securities being held in the reserve as cover against the notes. Nor is there any such fixed relation in regard to the other form of token currency—the silver rupees. The amount of the Gold Standard Reserve and the time and manner of its use are wholly within the discretion of the Government. The Gold Standard Reserve being built out of the profits of coinage, the amount actually carried to the reserve depends on the price at which the silver is purchased and not upon the liabilities outstanding. Any estimate of the amount of the outstanding rupee circulation is largely conjectural; it may be estimated† at 350 to 400 crores, against which the reserve held at present is only 53½ crores*. It is true that a portion of the

† As to this estimate, see further para. 123 below.

* Converted at 1s. 6d. per rupee.

reserve against the silver rupee is carried in the coin itself (in the shape of its bullion value) but, it is admittedly difficult to make any immediate use of the metallic contents of the silver rupees at the time when those rupees are seeking conversion into sterling.

16. The automatic working of the exchange standard is thus not adequately provided for in India, and never has been. The fundamental basis of such a standard is provision for the expansion and contraction of the volume of currency. As the reserve rises or falls with a favourable or an adverse balance of trade, the currency must be automatically expanded or contracted, and the adjustment between internal and world prices maintained. Under the Indian system, contraction is not, and never has been, automatic. On occasions the obligation to buy sterling exchange has been discharged by the Government without any corresponding expansion of domestic currency: the purchases have in the first instance been made against Treasury balances and the currency expansion has been left to be effected subsequently at the discretion of the Government. More serious has been the absence of contraction on occasions when the currency authority has had to sell sterling exchange. The following table (prepared by the Controller of the Currency) shows how far the sales of reverse bills in the past have been accompanied by contraction of currency:—

Years.	Amount of reverses sold. £	Rupees		Amount of contraction effected. Rs. Lakhs.
		received for reverses sold. Rs. Lakhs.	...	
1907-8-9	... 8,058,000	... 12,16	...	12,16
1909-10	... 156,000	... 24	...	Nil.
1914-15	... 8,707,000	... 13,16	...	1,05
1915-16	... 4,893,000	... 7,38	...	34
1918-19	... 5,315,000	... 7,08	...	Nil.
1919-20-21	... 55,532,000	... 47,14	...	34,68

17. The action of Government in avoiding the full compensatory contraction on these occasions was no doubt due to some extent to fear that the monetary stringency which would have resulted from a full contraction would have dislocated business. There were, moreover, factors at work in 1920,—such as revenue deficits and a large amount of maturing debt—which made it then difficult to enforce greater contraction. However that may be, it is clear that on such occasions the exchange standard was not being applied, and possibly could not have been applied, in a normal manner. There was nothing in the Indian system to enforce such an application. In 1920 the consequences were disastrous. There must ever be danger of such disaster under a system which does not automatically enforce contraction of internal currency concurrently with the depletion of Reserves.

Elasticity.

18. In a well-regulated system of currency, the volume of currency should vary freely in response to the varying requirements of trade. In India there is a seasonal variation due to the requirements for financing the movement of crops. In order to provide for them, the currency authority is allowed by statute to issue currency notes up to a maximum limit (at present amounting to Rs. 12 crores) against hundis or internal bills of exchange. This provision has had beneficial effects in practice, but it is not in our opinion incapable of development and improvement in connection with a reorganisation of the bases of Indian currency. Any such provision depends for its proper operation on a plentiful supply of genuine trade bills. But in India, for a variety of reasons, most of the internal trade is financed by a system of cash credits or by the advance of money against demand promissory notes. It has, therefore been found difficult to secure an adequate volume of bills as cover against the seasonal increase. As a result, the currency authority has on occasions been forced to provide for the needed elasticity by regulating its holding of sterling securities in the Reserve.

19. A well-regulated system should also provide for a measure of elasticity in the expansion of currency in case of great financial crisis, when the need for additional cash for the support of credit is urgent. In such case it is necessary to provide for an emergency issue of currency on special terms. The Indian system makes no express provision of the sort.

Control of Currency and Credit.

20. A description of the present state of affairs and an account of its defects would be incomplete without a reference to the subject of co-ordination of control of currency and credit. India is perhaps the only country, among the great trading countries of the world, in which the Government exercises direct control over currency in general and over the note issue in particular. The banking and currency reserves of the country are thus separated, which diminishes their capacity to effect their specific purpose of stabilisation in the most economical and efficient manner. In other countries this is effected by concentrating these reserves at a Central Bank. Moreover, Government control of currency results in a dual control of monetary policy. The Government controls the currency. The credit situation is controlled, as far as it is controlled at all, by the Imperial Bank. With divided control, there is likelihood of divided counsels and failure to co-ordinate. In fact, difficulties have arisen owing to the existence of two distinct authorities controlling currency and credit. The only certain way to secure co-ordination is to concentrate the controls in one hand. In other countries the single controlling hand is that of a Central Bank.

A Summary.

21. To summarise the present state of affairs and its defects :—

(1) The system is far from simple, and the basis of the stability of the rupee is not readily intelligible to the uninstructed public. The currency consists of two tokens in circulation, with the unnecessary excrescence of a third full-value coin which does not circulate at all. One form of token currency (into which there is an unlimited obligation to convert the other) is highly expensive, and is liable to vanish if the price of silver rises above a certain level.

(2) There is a cumbrous duplication of reserves, with an antiquated, and dangerous, division of responsibility for the control of credit and currency policy.

(3) The system does not secure the automatic expansion and contraction of currency. Such movements are too wholly dependent on the will of the currency authority.

(4) The system is inelastic. The utility of the provision for elasticity made on the recommendation of the Babington-Smith Committee is affected by the methods of financing Indian trade.

Essential Requirements.

22. In consequence of these defects the system has not the confidence of the public. Some of the lack of confidence is the result of an exaggerated idea as to the extent to which any system of currency can be made to work automatically and independently of expert control. But when allowance has been made for all misunderstandings and misapprehensions, the fact remains that a large measure of distrust in the present system is justified by its imperfections. We recognise the skill with which successive generations of officers of Government have developed a system of currency in India, and the fidelity with which they have administered it. From 1898 to 1914 the exchange standard worked on the whole well in practice, except for certain failures of co-ordination due to the division of function between the Government of India and the India Office. But the evolution of the Indian economic system has now reached a stage when her currency can and should be placed upon a more simple, certain, and stable basis. A substantial measure of stability has been attained in the past. But certainty and simplicity have been lacking; and for a system of currency under Indian conditions and for the Indian people these two last qualities are as vitally necessary as the first. Without certainty and simplicity in the system, there will never in India be confidence in the stability of the currency, and without confidence in the stability of the currency, the uninstructed public will never be weaned from those uneconomic habits of hoarding and that disinclination to investment which are now the worst obstacles to the progress of the nation.

Alternative Proposals for Reform.

23. After exhaustive inquiry we have found that the possible methods by which the defects in the present system might be remedied may be reduced to three. These are :—

- (i) the perfection of the sterling exchange standard,
- (ii) the adoption of a gold exchange standard, and
- (iii) the adoption of a gold standard proper, with or without a gold currency.

Sterling Exchange Standard.

24. We shall first consider the possibility of a perfected sterling exchange standard. The main defects in the existing system might be remedied by the following provisions :—

(a) the Gold Standard Reserve and the Paper Currency Reserve might be amalgamated and reconstituted by statute as a single currency reserve under the control of one currency authority ;

(b) the currency authority might be required by statute to sell rupees for sterling without limit at the upper gold point of a fixed parity and similarly to sell sterling for rupees at the lower gold point of the same fixed parity.

25. By an appropriate structure built on this foundation, the Indian system might be developed into a perfected sterling exchange standard, both automatic and elastic in its contraction and expansion, and efficient to secure stability. Such a system would involve the least possible holding of metallic reserves, and would also be the most economical from the standpoint of the Indian taxpayer. But the system would have grave defects. The silver currency would still be subject to the threat implied in a rise in the price of silver. Were sterling once more to be divorced from gold, the rupee, being linked to sterling, would suffer a similar divorce. Should sterling become heavily depreciated, Indian prices would have to follow sterling prices to whatever heights the latter might soar or, in the alternative, India would have to absorb some portion of such rise by raising her exchange. India has had experience of both these alternatives and the evils resulting from them are fresh in her memory. We do not indeed regard the possibility of sterling again becoming divorced from gold as of much practical likelihood : it is unlikely to happen except in a world-wide catastrophe that would upset almost all currency systems. Nevertheless there is here a danger to be guarded against, which is real, however remote. There is undoubted disadvantage for India in dependence on the currency of a single country, however stable and firmly linked to gold. For these reasons, were the standard of India to be an exchange standard, it should undoubtedly be a gold exchange standard, and not a sterling exchange standard.

The Gold Exchange Standard.

26. A gold exchange standard could be secured by providing that the currency authority, instead of undertaking to buy and sell sterling, should undertake an obligation to buy and sell, at the upper and lower gold points respectively and to unlimited amounts, the currencies of any of the principal foreign countries with a gold standard.

27. In this case the rupee is not, in theory, directly stabilised in relation to gold. When the obligation is undertaken to buy and sell the currencies of the leading gold standard countries, the value of the rupee may even then vary in relation to gold if the currencies of *all* those countries cease to maintain that relation. In practice, the improbability of such an event is extreme, and on this basis the stability of the rupee in relation to gold would be practically secured.

28. The imposition of a statutory obligation linking the rupee to the currency of more than one gold standard country, together with the other improvements suggested in the preceding paragraphs relating to the sterling exchange standard, would give to India a currency system which would have decided advantages in comparison with the present system. The internal currency would be convertible into international currency at the will of the holders and the rupee would thereby be stabilized; the reserves would be simplified; the parity with gold would be established by statute; and the system would be as automatic as, and no more subject to manipulation than, the systems of the United States of America or Great Britain.

Objections to a Gold Exchange Standard.

29. There would still however be serious defects in the system. The danger would still impend that the silver rupee would vanish as soon as the price of silver rose above the melting point of the coin. Were that to happen, it would be necessary to stop the coinage of the silver rupee of the present fineness and weight and to replace it by small notes and coins of nickel or of less silver content. Under any exchange standard the note is internally convertible into silver rupees only and not into gold, and as long as that is the case, both of the courses referred to are open to such strong objections as to be practically impossible. The status of the rupee must not be adversely affected unless there is something better to take its place.

30. This defect, serious as it is from a technical aspect, is not the only or indeed the chief defect which leads us to the conclusion that a gold exchange standard is not the best for India under present conditions. The chief defect is

that although it secures stability, it has not the simplicity which is essential to secure the confidence of public opinion for any currency system under present conditions in India. The mechanism of an exchange standard is refined. Some knowledge of economics is necessary to understand it. The right of convertibility upon which its stability is based is one of no direct concern to the general public, and it is unintelligible to the majority. The uninstructed see nothing tangible behind the token currency to assure its value. These characteristics, inherent in an exchange standard, make it unsuitable to the needs of a vast community or collection of communities, the various members of which are of all degrees of education, and indeed of all stages of civilisation. It is impossible also to ignore that for historical reasons, into which it is unnecessary to enter, there is a large body of public opinion in India that is suspicious of the mechanism of an exchange standard. It is convinced that this mechanism can be manipulated and it fears that it may be manipulated in a manner inconsistent with Indian interests. We believe ourselves that this fear is groundless, and further, as we have stated already, that a pure-exchange standard is no more and no less liable to manipulation than a gold standard; but that is not the opinion of the Indian public, and it is essential that whatever system of currency is adopted should be one that is capable of securing the confidence of Indian public opinion, after experience of its working.

31. The basic right of convertibility that supports an exchange standard is too abstract for the present conditions in India: the backing which it supplies for the token currency is too intangible and invisible. Without some backing more certain, simple, and solid, confidence in the stability of the currency will grow more slowly than it should, if it grows at all, and progress in the habits of banking and investment will be delayed. A backing more certain, simple, and solid must be provided, nor can there be any doubt as to the best means of providing it. In the present state of its development Indian public opinion will have confidence in one thing only as solid enough for a backing for its currency, and that is gold. It requires some link that is real, and not only real but conspicuously visible, between the currency of the country and gold.

32. We are thus led to the conclusion that since a gold exchange standard cannot provide an efficient remedy for the defects of the existing system of Indian currency, to remedy those defects and to fortify popular confidence in the currency it is necessary to establish on a sure basis not only the external, but also the internal, convertibility of the token currency of the country into metallic gold.

A Proposed Scheme for a Gold Currency.

33. We will now consider the principal scheme for a gold standard and gold currency for India that was placed before us in evidence. We refer to the scheme set out in the memoranda and evidence of the officials of the Finance Department of the Government of India.* Under this scheme the silver rupee would cease to be legal tender, except for small amounts, after a period during which it would have been convertible into gold currency. The scheme would involve the attraction to India of a large additional amount of gold, required for currency and the conversion of hoards. It would also involve the sale of an amount of redundant silver equal to about thrice the world's production for a year. A summary of the scheme is contained in an annex† to this Report.

34. The chief objects of the scheme are :

(a) To eliminate the threat to the currency inherent in the possibility of a rise in the price of silver by dethroning the rupee from its position as a standard coin of unlimited legal tender, and thus also to enable the constitution of the reserves to be simplified by eliminating the silver therefrom : and

(b) To cure the uneconomic habit of the people of holding the precious metals as a store of value, by assuring them, through the instrumentality of a gold currency, that the same measure which they mete out, in gold value, by way of investment or deposit with a bank, will be meted to them again, in gold value.

Criticism of the Scheme.

35. The points for consideration in connection with this scheme are :

(i) the effect of the absorption by India of about £103 million of gold (in addition to normal absorption for the arts, hoards, etc.) on the supplies of credit, the rates of interest, and gold prices, throughout the world :

(ii) the reliability of the estimates as to the amount of gold to be required and the time at which it would be required and the effect of any miscalculation under these heads on the Indian monetary situation :

(iii) the effect of the scheme on the silver market of the world and the amount which would be realised for the surplus silver :

(iv) the effect of the proposals as to silver on the favourite store of value of the masses of the Indian population :

* Appendices, Nos. 5 to 7.

† See page 90.

(v) the effect on India of the probable reaction of these proposals on other silver-using countries, and especially on China; and

(vi) the possibility of British and American co-operation in the matter of raising credits for the carrying through of the plan.

(i) *Effect of India's additional demand for gold.*

36. As regards the future of the gold market divergent opinions have been expressed, and we have not found it possible to arrive at any definite conclusion as to the future relation between supply and demand. But the evidence which we have received, and in particular that from Professor Gustav Cassel and Mr. Joseph Kitchin, has convinced us that it would be most imprudent not to take into account the possibility, indeed the probability, that unless great economy is exercised in the use of gold, both in regard to its use as a commodity and its use as money, we have to look forward to a prolonged period of steadily falling commodity prices throughout the world.

37. In this connection it is necessary to take account of the requirements of various European and other countries whose financial equilibrium has been disturbed to a greater or less extent in consequence of the War. These countries are now trying to climb back gradually to the gold standard or the gold exchange standard. This aim requires for its fulfilment that there should be a certain amount of free gold available each year. Though signs are not wanting of a spirit of co-operation among the Central Banks towards effecting considerable economies in the international use of gold, there can be no doubt that a large extra demand from India would cause increased competition for gold among the countries of the world and lead to a substantial fall in gold prices and a substantial curtailment of credit. In their reaction on India as one unit in the world's trade system, a fall in gold prices and a curtailment of credit would on balance be unfavourable.

38. It has been suggested that the United States of America at present holds a far larger stock of gold than is required for monetary purposes, and that it would be an advantage to America and to the world generally if some of this redundant gold were to be absorbed by India. The authoritative evidence which we have received from the United States does not confirm this suggestion. We have been told that during last year the United States of America parted with about \$134 million of gold, and that the residuum of free gold available is not in excess of the probable requirements of other countries for purposes of reconstruction. Bearing in mind these requirements, and also the internal absorption of gold for the growing needs of the United States itself, we consider that the stock of

“ free ” gold in America cannot be regarded as superfluous and will probably be absorbed in a comparatively short time.

(ii) *Uncertainty of the estimates of the amount and time of gold demand.*

39. There is an element of uncertainty involved in the estimate of the amount of gold required for giving effect to the scheme, and it is impossible to be sure that the additional demand for gold could be spread over the period of 10 years.

40. Sufficient weight has not been given to the possibility of the replacement, as the result of the scheme, of a part of the note circulation by gold. If a high valued gold coin is introduced, the alternative of carrying a few gold coins would present some attractions and might make people prefer gold coin. In view of India's attitude towards gold, many who have been in the habit of using notes because paper is more convenient than silver rupees might turn to gold, which would be as convenient as rupees and more attractive than notes.

41. Gold coin is fully valued and the metal has a prestige of its own. We anticipate that the decline in the value of silver which would result from the proposals of the scheme relating to that metal would lead to a loss of confidence by the Indian people in the value of silver as a store of savings, and would, to that degree, induce an enlarged absorption of gold for non-monetary purposes, thus augmenting the gold requirements of the scheme.

42. It has been urged that if a gold currency is introduced into circulation, and if exchange is stabilized, the result would be so to increase confidence that gold would come out into circulation or come back into banking reserves from its present location in hoards. This effect might no doubt be produced by a development of banking and investment habits; but there is no very obvious reason why it should be produced by putting gold into circulation. The mere act of putting gold into circulation would not in our opinion develop the banking and investment habit.

43. The scheme involves the reduction of the proportion of gold and sterling securities in the Reserve to gross note circulation, during the transitional period, to 30 per cent. That proportion is in our opinion too low for safety, especially during a period of transition, and the external convertibility of the local currency would be seriously jeopardised if the transition to the new system should coincide with an unusually bad year for Indian exports. An increase in the proportion to a safe level during this period would mean an addition to the estimated gold requirements.

44. It would be imprudent to place much reliance on the anticipation that the initial demand for gold can be limited to Rs.50 crores. As soon as it became known, and it must become

known at once, that the status of the rupee was threatened, holders would probably hasten to get rid of every rupee they could spare, and it is quite possible that the conversion of the whole amount of surplus rupees might thus have to be effected within a short time after the initiation of the scheme.

45. If the gold requirements should prove to be greater than is contemplated in the scheme, or if the absorption could not be spread over a period of 10 years but progressed more rapidly, the effect would be to intensify the difficulties and to increase the expense of the project. Had the control of the currency meanwhile been transferred to a bank, such an intensification might involve a restriction of credit conditions in a manner and to a degree highly detrimental to the country's economic progress.

(iii) *Effect on the silver market, and possibility of realising the assumed price.*

46. The proposals as to silver involve even more risk than those as to gold and even greater disadvantages. To the extent of about two-thirds of the output, silver is not won for its own sake alone but either as a by-product of base metals or in conjunction with gold. If a substantial fall in the price of silver were to take place, any consequent curtailment of output would hardly affect the base metal product at all, would have more (but still little) influence on the production from gold ores, and would have its chief effect on silver ores only, i.e., on about one-third of the silver production. Even here the effect would be slower and smaller than might at first sight be expected, because the fall in price would not affect the richer mines, and the poorer mines would struggle to continue their production as long as possible. On the other hand, the increasing use of notes, not only in Europe but in the Far East, and the increasing resort to nickel and other base metals for subsidiary coinage, are factors which point to a distinct diminution in the demand for silver in future. The future of the silver market must at all times be a matter shrouded in obscurity: but, assuming no change in the status of the silver rupee, the best working hypothesis at present is that the production of silver in the next 10 years will be sufficient to meet the demand. But if, as contemplated in the scheme, silver were to be dethroned from its present position in India, and if for several years India were to meet her own normal demand for silver by melting rupees, we should not be surprised to see silver fall much below the level of 24d. assumed in the scheme, especially if, as is not improbable, the action of India had the effect of making other silver using countries follow suit.

47. The Government's policy in regard to gold would also react on the silver position. If the policy of introducing a gold currency were adopted, it would, by largely augmenting the

already extensive demand for a metal that threatens to be in increasingly short supply, result in further depression of the gold price of silver.

(iv) *Effect on silver hoards.*

48. The people of India have from time immemorial placed their trust in silver as the medium of exchange and as their store of value. They are deeply interested in the value of silver bullion, and it is contrary to their interests to depreciate it. The present proposals would inflict heavy losses on the poorer classes, who have put their savings into silver ornaments and who would find their stores of value depreciated by perhaps 50 per cent. by the action of Government. It might well happen that, when it was seen that the price of silver was doomed to fall, there would be a tendency to change over from silver to gold in all parts of the world where silver is still held in large quantities as a store of value. It is proposed, in the scheme, to protect the value of the Indian holdings of silver against this inevitable depreciation by an import duty. Quite possibly, if it were a very heavy duty, it might protect them to some extent. If it did, it would put the Government of India under a moral obligation to maintain the price of silver for practically all time; for at the completion of the plan they would have sold nearly 700 million ounces of silver to the people at a price that was possibly double the world price. In our opinion, however, the effort to maintain the domestic price of silver irrespective of world price would probably fail. There has always been a considerable trade in silver over the land frontiers of India; and, apart from the difficulties of attempting to exclude a valuable metal from a wide frontier, if people who are accustomed to do that trade were to find that the value of silver in the outside world was very much below the value in India, it would probably affect confidence in the value of silver in India itself. In the case of an article which, like silver, is largely kept as a store of value, the influence of opinion on its value is extremely important.

(v) *Effects on China.*

49. We have thought it desirable to treat separately the effects of these proposals on China. For a very long time the Chinese have been profoundly concerned at the uncertainty of silver as a basis of credit and as a measure of value in China. China is now the only great silver standard country. The countries with which the bulk of her trade is carried on are all either on the gold standard or on the gold exchange standard. The Chinese have for a long time been trying to find some means of substituting gold or some form of gold standard as the basis of their currency. This would probably have been done already but for the expense. The catastrophic fall in the price of silver in terms of gold, which would take place on the bare announcement that surplus silver equal to the world production

for three years was for sale, would undoubtedly tend greatly to accelerate the movement in China, and might induce her immediately to set about securing the gold needed as a basis for instituting some form of gold exchange standard. That would in turn magnify the effect which had already been produced on silver by the Indian announcement, both by the reduction in demand and to some extent by the increased supply of silver that might come into the market. Moreover, the adoption of a gold standard by China would produce a further new demand on the world's gold supplies, and this demand would tend to appreciate gold and thus still further to depress the price of silver.

50. The reaction on Chinese trade would be by no means negligible. China is the greatest, and perhaps the only great, undeveloped market left for the expansion of international trade. The effect of the announcement that the Indian Government proposed selling a large quantity of silver would be immediately to throw out of gear the exchange with China and for a time to paralyse the growing trade of the world with that country. India, apart from her direct trade with China, which is a growing market for cotton and cotton goods, could not escape injury from a wide-spread dislocation of the kind.

(vi) *Raising of the required credits.*

51. As regards the question of credits, we have had the benefit of the opinion and advice of the authorities best qualified to speak on the subject, namely the Governor of the Bank of England and the Governor of the Federal Reserve Bank of New York. This is a matter in which Great Britain would not be able to act alone without the co-operation of America. Both authorities view the proposal with alarm on the grounds that it would retard the progress of monetary reconstruction in Europe, would upset world prices, and would be fundamentally harmful both to India and to the rest of the world. The United States is directly interested in the proposal through its mining industry, both in silver and in base metals. The currency authorities and bankers of the United States, with its great and traditional interest in silver, cannot be expected to support or encourage a proposal which would deal such a blow to the silver market as the addition to supplies of thrice the whole of the world's production for a year. In these circumstances it appears that insuperable difficulties would be encountered in obtaining the necessary credits.

It must be pointed out that, before adopting this proposal, or any other proposal for the introduction of a gold currency into India, the authorities responsible for the scheme must be certain beyond the possibility of doubt that they can carry the scheme successfully through. For that purpose, they must be absolutely assured that they can obtain the amount of gold required. The evidence which we have received prevents any such assurance. In view of that evidence, we

are confident that those responsible for the scheme under consideration would be the first to recognise that the external conditions which are essential for the success of the scheme at the present time are not fulfilled.

Cost of the scheme.

52. Before concluding this section we must refer to the estimates of the cost of the scheme. Mr. Denning puts the cost at 1·65 crores per annum during the first five years and 1·12 crores thereafter. Sir Basil Blackett, by providing for a smaller holding of gold, would reduce the estimate to about two-thirds of a crore after the transitional period. These estimates are based on a proportion of 30 per cent. gold and gold securities in the Reserve during the transition period, a figure which we have already criticized as unsafe. Moreover, these estimates take credit for the income to be derived from the conversion of redundant rupees into interest bearing securities. This income would become available ultimately whether the scheme were adopted or not. Mr. Kisch, after eliminating this credit, considers that, even on the basis of a 30 per cent. proportion, the permanent loss to India as the result of the adoption of the scheme, to which he is strongly opposed, can scarcely fall short of 3 crores a year, besides an indefinite and incalculable amount depending on the extent to which the promotion of a gold circulation checks the future natural growth of the note issue. We have not attempted to recast any of these estimates on an arithmetical basis because we feel that from the nature of the case they must be largely conjectural and would be liable to be greatly exceeded owing to various causes which have been referred to above. All that is certain is that there is expense involved, and that it must be substantial.

Unacceptability of the Scheme.

53. For all these reasons, the scheme fails to commend itself to us. In our opinion both the objects which the scheme has in view can be attained without any of the risks and disadvantages attendant on the scheme itself. Indeed, all that is claimed for it, in comparison with other proposals, is that it would attain the object of educating the Indian people in the habits of banking and investment, and out of the habit of hoarding, more speedily than any other scheme. As already indicated in paragraph 42, we do not think it would do so. The habit of hoarding the precious metals became ingrained in India through centuries of war and rapine, and has persisted under British rule in spite of security of property and the introduction of improved currency and banking facilities. There are welcome signs that the deep-seated habit is beginning to yield to these influences, but we see no reason to believe that the introduction of a gold currency would accelerate the process. Even if it would do so, it seems to us that the acceleration would

be gained at the cost of risks far too great to be justified. We may conjecture that the authors of the scheme would come to the same conclusion, after studying the evidence that we have received from the United States. Sir Basil Blackett comes to meet such a decision when, in the last paragraph of his memorandum, he says : " If the effect of a decision to attempt the change to gold in India is going to be to upset the gold standard in the United States or in Europe, India has clearly nothing to gain by the attempt." In our opinion, the attempt would be very likely to have the consequence to which he refers. It can only be accomplished at the cost of insecurity to those countries which have restored their monetary standards, and at the risk of delay to those countries which are now seeking with reasonable promise to do so, and this uncertainty and delay are likely to produce higher interest rates, business disturbance, and economic depression, with inevitable repercussions on the economic well-being and commercial prosperity of India.

We are unable therefore to recommend this scheme for adoption ; and the reasons, stated above, which have led us to this conclusion, would lead us to reject any proposals which involved, by the limitation of the right of legal tender attached to the rupee, or by the sale of any large quantity of silver, any severe shock to the silver market, or which required the abrupt attraction to India by artificial expedients of any large additional amount of gold for circulation as currency.

II.—A GOLD STANDARD FOR INDIA.

54. We have already arrived at the conclusion that, in order to secure public confidence in India, the currency of the country must be linked with gold in a manner that is real and conspicuously visible, or, in other words, that it is necessary to establish a true gold standard. It should be understood that this does not necessarily imply a gold currency. It is possible to have a true gold standard under which the currency is based on gold both in reality and in a manner that is conspicuously visible, without putting gold into circulation. Having stated our reasons for rejecting the principal proposal for a gold standard with a gold currency that has been suggested to us, we proceed to deal with the method for the establishment of the gold standard which we recommend for adoption. The essence of the proposal which we proceed to develop is that the ordinary medium of circulation in India should remain as at present the currency note and the silver rupee, and that the stability of the currency in terms of gold should be secured by making the currency directly convertible into gold for all purposes, but that gold should not circulate as money. It *must* not circulate at first, and it *need* not circulate ever.

Gold in Circulation.

55. The economic reasons against putting gold into circulation are simple and clear. If the gold in the reserve is transferred to

the circulation, the structure of credit that can be built on that reserve is *pro tanto* reduced. The greater the proportion of gold in circulation, the less the elasticity of the currency system. In a system that consists solely of gold coins, there can be no elasticity as the currency can only be increased by taking payment in gold for the balance of exports over imports and it can be decreased by the contrary process only. In short, the less the gold in circulation, the more will be the gold in the reserves and the greater the elasticity of the structure of credit that can be built thereon. Gold in circulation is of uncertain value for the support of exchange. In the words of the Chamberlain Commission's report, "so long as the public have the option of making payments in tokens or in gold, it is the surplus tokens and not the gold in circulation which will seek an outlet at a time of weak exchange."

56. The chief reason that has been advanced for the introduction of a gold currency is that it will give the people confidence in the stability of their currency. We incline to the opinion that the scheme which we outline below will do so much to establish confidence in the stability of the currency that whatever more would be gained in that direction by proceeding to put gold into circulation would not be worth the expense, the loss of elasticity, and the other serious disturbances which are likely to follow. It is agreed by many who advocate the introduction of a gold currency that a token currency of notes inconvertible for internal purposes is the ideal end towards which India should work. The scheme outlined below carries India very far along the road towards that end, and to add to it at some future time a gold currency would seem to us a useless return along a part of the road already traversed by the introduction of this system. It should, moreover, be observed that this scheme has the advantage of setting up almost immediately a full gold standard whereas all other schemes put forward contemplate a postponement of this desirable condition for a decade or more.

57. Nevertheless, it should be recognised that the scheme which we recommend is equally appropriate, whether or not it be held that the gold standard should ultimately be supplemented by a gold currency, at some future time. Supposing that it be held that a gold currency should ultimately be introduced, there is, nevertheless, general agreement that it cannot be introduced at once. (The scheme referred to in paragraph 33 above is that which provides for its most rapid introduction. We have given reasons for believing that the rapidity of that scheme involves risks which ought not to be incurred.) The alternative is to make provision for the gradual strengthening of gold reserves in such a manner as to avoid disturbance to the world's gold and silver markets (with its inevitable injury to the finances of India and her prosperity in trade), whilst incurring the minimum of expense. The scheme outlined below does contemplate

incidentally a gradual but substantial strengthening of gold reserves, at the maximum rate, and to the maximum extent, possible under present conditions without upsetting prices, incurring excessive expenses, or injuring Indian trade by unduly restricting credit.

It appears to us, in short, that if one desired that a gold currency should be introduced, it is thus that one would have to proceed. Our own view is that it would be unwise to contemplate the introduction of a gold currency under any conditions which we can foresee. But while holding that view, we have tried to see the matter from the point of view of those who do want a gold currency as soon as it can be had. It then appears to us that the following proposals open the door for the introduction of a gold currency at some future time, as wide as it is now possible to open it. They initiate a system which will leave the people of India perfectly free to decide, through their legislature, when that future time has come and a gold currency can be introduced without risk, whether or not they are prepared to confront its expense, and to disregard its other disadvantages. It is quite possible that when that time comes the people of India will no longer wish for a gold currency. The widespread desire for it which was expressed to us by so many witnesses in India appeared to be induced to some extent by the idea that gold was the most advanced form of currency and that other nations had long denied to India a privilege which they enjoyed and highly valued themselves. The war has taught Europe to do without gold coins and experience has aroused doubts of their utility. In returning to a gold standard the nations do not aim at a return to a gold currency. Great Britain has hitherto avoided the reintroduction of gold into circulation. In the United States, gold, which circulates in theory, does not circulate in practice. Some high authorities have expressed the view that the circulation of gold is beginning to be regarded as a sign of a backward civilisation. It may well be that, when India is in a position to introduce gold into circulation, she will reject it as an obsolete ideal, and will finally close the door which we now propose to leave ajar. But that is a matter which we have neither the desire nor the capacity to forejudge.

58. We fully recognise that the system which we recommend will impose upon the Indian currency authority an obligation far more serious than has ever been imposed upon it in the past. The obligation is to convert the currency, not merely into foreign exchange, but into metallic gold, and it is an obligation that is not, as formerly, conditional and circumscribed, but absolute and unlimited. Nevertheless this obligation does not differ in essentials from that which must be undertaken for the maintenance even of a sound exchange standard. It has been undertaken by every other country that has adopted an effective gold standard: and we have satisfied ourselves that the present

resources in the form of reserves at the disposal of the Government of India are adequate to enable the currency authority safely to undertake the obligation, with the measures of fortification, and at the time, which we specify in our detailed recommendations.

The Gold Bullion Standard.

59. The currency system which we recommend for the present needs of India may be described as a gold bullion standard. We propose that an obligation should be imposed by statute on the currency authority to buy and sell gold without limit at rates determined with reference to a fixed gold parity of the rupee but in quantities of not less than 400 fine ounces, no limitation being imposed as to the purpose for which the gold is required. The fulfilment by the currency authority of this obligation will secure the stability of the gold value of the rupee, and the stability of exchange within the gold points corresponding to the selected parity. Gold is thus made the standard of value. The rupee is linked to gold and not to sterling or to any other currency or group of currencies.

60. Since gold bars are to be given in exchange for notes or silver rupees, not for export only, but for any purpose, this is not an exchange standard; it is an absolute gold standard. Nevertheless the compensatory mechanism of the exchanges is preserved, because gold bars are not currency. When gold bars are given by the currency authority for notes or rupees, the currency is contracted, while, on the other hand, when gold bars are given to the currency authority for notes or rupees, the currency is expanded.

61. For the purposes of India this standard fulfils the essential condition, that it should be not stable only, but simple and certain. It provides the token currency with a right of convertibility that is intelligible to the uninstructed, and with a backing that is tangible and visible. In short, it has the characteristics necessary to inspire confidence in the Indian people, to promote the habits of banking and investment, and to discourage the habit of hoarding precious metals. The statutory obligation to buy and sell gold for rupees without limit at a prescribed parity for the first time in the history of the rupee will base it on gold firmly and in a manner that is conspicuously visible. It establishes the principle that gold is the standard of Indian currency at a fixed ratio, and that the currency authority admits it, and must maintain it.

62. There is no reason to suppose that the obligation to sell gold bars will result in any sudden or substantial drain on the reserves for the conversion of rupee hoards. Holders of such hoards can convert them into gold at present by buying that metal in the open market; and there is good reason to believe that large quantities of hoarded rupees have already been converted in

this way. Since it is not proposed that the rupee should cease to be a legal tender, there will be no greater incentive to convert under the new system than there is now; and as will be observed from the detailed proposals below, it is not intended that gold should be given by the currency authority at a rate cheaper than the market rate.

63. Apart from the economic loss to India, the existence of a large volume of currency in hoards is a formidable obstacle to the efficient working of any currency system. As long as the circulating media of the country, whether silver coin or gold coin or notes, are employed for hoarding, the control of the currency authority over expansion and contraction of currency must be uncertain and there must be a possibility of fluctuation of prices wider than would be the case if all currency served merely the purpose of a medium of exchange. The ebb and flow of currency in hoards with its resultant effects on the volume of active monetary circulation and consequently on prices introduces an element of uncertainty which makes the working of the discount policy by the currency authority very difficult and may stultify its efforts to control the money market. The mere substitution in the hoards of one kind of coin for another, both of which are legal tender, is no remedy at all for this evil. Under the system which we propose, that portion of the hoards which is held in the form of gold coin will be rendered largely innocuous by the step, which we recommend below, of withdrawing the legal tender quality of the sovereign and half-sovereign; while that which is in the form of silver will presumably in course of time, be robbed of its latent power to disturb internal prices and money rates by being replaced—if the process of conversion should continue—by gold bars; or preferably by other more economic forms of saving, such as the gold savings certificates referred to below. Hoards in the form of bars cannot be utilised for monetary purposes until they have been converted into legal tender money, and such addition to the currency can only be made by the currency authority which will, in exceptional circumstances, if the stability of the currency be thereby threatened, be prepared to deal with it through credit control.

Buying and Selling Rates for Gold.

. 64. A sound gold standard postulates a statutory obligation upon the currency authority to buy and sell gold at a price equivalent to the par value of the monetary unit. This obligation constitutes the cardinal condition and compelling force for the maintenance of monetary stability in relation to gold, and, through gold, in relation to all monetary systems similarly linked to gold or gold exchanges. In the case of India there is a difficulty in the way of imposing on the currency authority an obligation in this simple form. India's demand for gold is not confined to monetary purposes. She has always absorbed gold

and will probably continue to do so in important amounts for purely social uses. This factor has to be taken into account when determining the obligation of the currency authority to buy and sell gold. At present India's requirements for these purposes are satisfied by an admirably organised bullion market, which buys gold abroad, mainly through the banks, wherever it happens to be cheapest. The gold so bought is sold in India at prices which cover the cost of importing it, and no doubt leave a profit to the dealers. If the currency authority were compelled to sell gold at a price exactly corresponding to the par value of the rupee, it would at once become the cheapest market for gold in India in all ordinary circumstances, for a selling price so determined would take no account of the costs of importation nor of any deviation in the value of the currency from its gold parity. Apart from practically destroying the wholesale bullion market, the currency authority would inevitably become involved in the performance of a task which does not properly belong to it. Its primary duty of maintaining the value of the monetary unit at parity with gold would be made far more difficult, and the means, e.g., the rigorous and continuous contraction of credit, which it would have to employ to attract a steady flow of gold into its reserves, so as to enable it to meet the demand for both monetary and non-monetary gold, would be highly detrimental to the economic progress of the country. It is essential, therefore, that the conditions which are to govern the sale of gold by the currency authority should be so framed as to free it in normal circumstances from the task of supplying gold for non-monetary purposes. In order to achieve this object we propose to fix the selling prices of gold at rates which will enable the Bank to replenish its stock of gold without loss by importation from London. Thus, when exchange is at the upper gold point the selling price for delivery at Bombay will be the par value, i.e., Rs. 21 as. 3 ps. 10 per tola. When exchange is below this point, the Bank will be required to sell gold for delivery in London or Bombay, at the option of the purchaser, at certain notified prices. These prices will be determined by the cost at which gold could be respectively purchased in London or laid down in Bombay from London when exchange is at the lower gold point. The option to the purchaser on the other hand to buy gold for delivery in London at the prices determined leaves the margin between the upper and lower gold points of the exchange as narrow as it could be, having regard to the cost of moving gold to and from its most convenient gold centre. The form in which these obligations would be imposed on the Bank is set out in paragraph 150 below, and the method of computation employed is explained in Schedule 1.

Removal of the Legal Tender Quality of the Sovereign.

65. The obligation to sell gold bars for all purposes makes it impossible to have any gold coin as legal tender, or to mint gold

for the public, unless and until the holding of gold in the reserves is big enough to make it possible to accept the obligations implied in the introduction of a gold currency, and it is decided that the introduction of such a currency is desirable. Otherwise the gold from the reserves might in certain circumstances pass into circulation without effecting any contraction in the currency and thus without fulfilling the essential purpose of securing the compensatory effect of the exchanges.

66. We therefore recommend that the legal tender quality of the sovereign and the half-sovereign should be removed. We do not apprehend any practical inconvenience from this proposal. Although these coins are legal tender under the Coinage Act, they have, owing to the existence of the 2s. rate in the statute book, long ceased to function as currency. In this connection it cannot be too clearly emphasised that as the sovereign and half-sovereign are fully valued coins, the cessation of their legal tender character does not involve any diminution in the real value of the coin in the country held as a store of value. In any notification which may be issued, of the buying price for gold, it should be explained that the price announced means so many rupees per full-weight sovereign.

If the currency be firmly stabilised in relation to gold, and be made directly convertible into gold, in accordance with our recommendations, we expect, as said, no undesirable consequences from the demonetisation of the sovereign, nor do we think that there should be any hesitation to sacrifice the shadow of an unnecessary, and in practice little used, gold coin of legal tender, in order to obtain the substance of a real gold standard. For the present, for the reasons stated in earlier passages of this report, a real gold standard with a gold currency is unattainable. The choice is between a real gold standard without a gold currency, and an exchange standard with an excrescent and unnecessary gold currency, which would only serve to disguise from the people of India the true basis of the stability of their currency. As between these two, every advantage in our opinion lies upon the side of the real gold standard that we recommend.

Introduction of Savings Certificates Payable in Gold.

67. The obligation specified in the preceding paragraphs to buy gold bars and to sell them in quantities of not less than 400 ounces, can in the beginning have only an indirect effect upon the people at large in establishing confidence in the currency. It is the bankers and bullion brokers who will make direct use of the provision. It is desirable, therefore, to find some further and more direct and visible means for bringing it home to the masses that gold is the standard of value of the rupee and that the one is convertible into the other. Such a means might, and we recommend that it should, be found in the offer by the Government "on tap" of savings certificates, redeemable in

three or five years, in legal tender money or gold at the option of the holder. They might be issued in denominations of one tola and integral number of tolas, and sold for legal tender money, rupees and notes, at a price which would give the holder an attractive yield in interest. It would add to the attractiveness of the certificates if the holder were given facilities to obtain payment therefor at any time during their currency at a discount reckoned at varying rates according to the date of encashment, but until the date of maturity it would be paid in legal tender currency and not in gold. Thus gold for delivery in three or five years would be sold at a substantial discount in relation to the cash price. As regards the relation between these certificates and the amount of the Reserve, the gold standard, of which this proposal is a useful auxiliary, and which it confirms, does no doubt necessitate a strengthening of the gold holding in the currency reserve, as proposed in paragraph 78 below.

68. The fear has been expressed that these certificates would have the undesirable effect of stimulating in India a fresh demand for gold. For the following reasons we are not of opinion that they would have any such effect. The offer of such certificates should constitute a powerful incentive to investment and a powerful antidote to hoarding. When his certificate matures, the holder of the maturing certificate will receive a striking demonstration of the advantages of investment and of the solidity of the gold basis of the rupee. It is legitimate to hope that the certificates will greatly assist in an ultimate solution of the problem of India's hoards. As soon as it has been established by experience as a certainty that gold is always forthcoming for the certificates on maturity, it is to be expected that there will be a gradual replacement of hoards by certificates. We should thus be achieving the chief benefit that is claimed for a gold currency without any of the risk, expense and inconvenience involved in putting gold into circulation. The benefits to be derived from the carrying out of this proposal need no emphasis. It will attract stores of wealth, great in the aggregate, and at present lying wastefully inert, to their right function of meeting the needs of India for productive capital expenditure.

Convertibility of Notes into Silver Rupees.

69. The termination of the anomalous provision by which one form of note, the paper note, is convertible by law into another form, the silver note, is an essential step in Indian currency reform which must be taken sooner or later. The existence of this obligation has in the past placed, and may conceivably again place, the currency system of the country completely at the mercy of the price of silver. Prudence clearly demands that such a risk, however remote, should be provided against if possible. Moreover, it entails keeping in the currency reserve, for

purposes of internal convertibility, a large stock of silver which for external purposes is of little value. When most needed it is liable to prove incapable of realisation. No opportunity for the termination of this obligatory convertibility is likely to be so favourable as the present, when, by making the notes convertible into gold bars for all purposes, a more solid right of convertibility is attached to them than they have ever had since silver ceased to be a reliable standard of value. The obligation must continue in relation to the present currency notes so long as those notes remain in circulation, because the Government's promise to redeem them in rupees must be religiously kept. But we recommend that no legal obligation for conversion into silver rupees should attach to the new notes, the issue of which we propose below. At the same time we think it essential to provide facilities for the free exchange of notes for rupees so long as the people desire to obtain metallic rupees in exchange for them. The people of India have for centuries been habituated to a metallic currency, and to the use of the rupee as a standard coin, and although the one-rupee note has been readily accepted in many parts of the country, notably in the jute districts of Bengal, it would be unwise to attempt to force paper money upon the people against their will. Experience has shown that the best way to foster the use of currency notes is to establish confidence in their practical convertibility, and this confidence has been secured not so much by a legal obligation to encash them at currency offices as by making rupees readily available to the public at centres where there is a demand for them. The public are more concerned with practical facilities of this kind than with legal rights, and if these facilities were withdrawn or seriously curtailed, the growth of the note circulation would probably be checked, and the popularity of the new notes would be endangered. For these reasons we propose to make it incumbent on the currency authority (subject to the reservation indicated in paragraph 135 below) to make rupees and other coin freely available to the public in such quantities as may be required for circulation. Our recommendation implies that the coinage of silver rupees should be stopped for a long time to come, until the amount of silver rupees in circulation is reduced to the amount required for small change.

70. Since there are at present approximately Rs. 85* crores of silver coin and bullion in the reserves and further quantities of rupees may be expected to come out of hoard in due course, a long period must elapse before there is any possibility of the slightest practical difficulty in converting any note that is presented into silver rupees. Practically, therefore, the change in the legal status of the notes should be quite unfelt, and before the present

* See first footnote on page 6.

stock of rupees runs low the stabilisation of the rupee in terms of gold will have had time to establish confidence in the note issue on a basis too firm to be shaken.

71. The removal of the legal obligation to convert notes into silver coin will, we believe, secure the object* which the scheme for the dethronement of the rupee was largely designed to secure. In the first place, it enables silver to be eliminated as a predominant element from the reserves, which are thereby simplified and placed on a sounder basis than they have ever had before. Secondly it prepares the way for getting rid of the threat to the currency inherent in the possibility of a rise in the price of silver. To counter that threat, one must be in a position to replace silver rupees by some cheaper form of currency, and one cannot do so as long as the rupee is one of the bases of convertibility of the note. When no rupees have to be held to secure convertibility of notes, when the public have been made familiar with the use of the one-rupee note as recommended below, and when all forms of internal currency have been firmly based on gold, no insuperable difficulty will arise in meeting the situation should the silver rupee, owing to a rise in the price of silver above the "rupee melting point," disappear from circulation.

Issue of One Rupee Notes.

72. We recommend that the currency authority should, concurrently with the first issue of notes of the new status, re-introduce one-rupee notes, which should be full legal tender and which, like other notes of the new status, should not be convertible by law into silver rupees. In spite of the fact that the issue of one-rupee notes may retard the absorption of the surplus silver rupees now in the Reserve, we consider it worth while incurring such retardation in order to popularise the use of notes, and to prepare the way for dealing with such an emergency as a rise in the price of silver above the melting point of the rupee. The alleged comparative expense of small notes seems a consideration that is negligible in comparison with these advantages. We do not recommend the re-introduction of 2½ rupee notes.

Convertibility of Other Notes into Legal Tender Money.

73. When the present legal right to obtain silver rupees in exchange for notes is withdrawn, it will be necessary to give the public a right to obtain change for the notes in some other form; and we propose to impose a statutory obligation on the currency authority to convert all notes, other than the one-rupee note, on demand into legal tender money, *i.e.*, into notes of smaller

* See para. 34 (a).

denominations or silver rupees at the option of the currency authority. This statutory provision would in form leave it optional with the currency authority to determine the form of legal tender money to be supplied, but as explained elsewhere we propose to ensure that all reasonable demands of the public for metallic currency shall be met in practice.

74. We are wholly opposed to any alteration in the legal tender character of the silver rupee. The reasons which have been urged for the withdrawal of its legal tender character are over-come, in so far as they are valid, by the above provisions.

Unification of the Paper Currency and the Gold Standard Reserves.

75. Experience has shown that it is impossible to discriminate scientifically between the purposes for which the Paper Currency and Gold Standard Reserves are maintained. As indicated above, the Paper Currency Reserve has to be used in some measure to support exchange and the Gold Standard Reserve has to be used in some measure to secure the external convertibility of the note. But at present the further factor of the legal convertibility of the note into internal currency gives a special character to the Paper Currency Reserve. With the removal of the latter difficulty by our proposals in the preceding paragraphs, the way will be clear for the amalgamation of the two Reserves, a step which will assimilate the Indian system to other currency systems. The combined Reserve will then be simpler and more intelligible to the public, and can be made more efficient in its working.

Composition of the Combined Reserve.

76. We shall discuss our proposals as to the constitution and working of the combined Reserve more fully in a later section of the Report. We shall refer to them here in a generalised form in so far as it is essential to bring out the principles of the proposed system.

77. We propose, in the first place, that the proportions and composition of the combined Reserve should be fixed by statute. This is a provision essential to any currency system in order to secure the automatic expansion and contraction of the currency and the compensatory effect of the exchanges, in accordance with the needs of the country. The lack of any such provision in the case of the Gold Standard Reserve was the chief weakness in the pre-war system and was responsible for its more conspicuous failures.

78. We next propose that it should be laid down that gold and gold securities should form not less than 40 per cent. of the Reserve. In view of the nature and extent of the obligations

with regard to the provision of gold which we propose should be placed on the currency authority, that authority should strive to work to a reserve ratio of from 50 to 60 per cent. In the event of the proposed gold savings certificates proving a popular form of investment, the possible demands for gold by Government for payment of these certificates on maturity would no doubt necessitate a further strengthening of the gold holding in the Reserve, but to what extent experience alone can show. The holding of gold, which now stands at about 12·8 per cent., should be raised to 20 per cent. as soon as possible, and in any case in not more than 5 years, and to 25 per cent. in 10 years, with a minimum of Rs. 30 crores from the outset. This would give a minimum of about Rs. 60 crores after 10 years on the basis of the present circulation. During this period no favourable opportunity of fortifying the gold holding in the Reserve should be allowed to escape.

79. This fortification of the Reserve is needed to secure confidence in the note in view of the new obligations proposed in paragraph 59 above and the new status of the note proposed in paragraph 141. It should be made in any case, whether or not it be held that the scheme now proposed should ultimately be supplemented by a gold currency. Even if it be held that there should ultimately be a gold currency, these provisions ensure that a beginning be made with the accumulation of an additional gold holding with the minimum of risk and expense and in such a manner as to cause the least possible disturbance to the world's gold and silver markets, with their inevitable repercussions on India and on the finances of India.

80. Silver reserves are ordinarily out of place in a gold standard system. But in India, silver coin forms a large proportion of the total circulation. There is a seasonal ebb-and-flow of considerable dimensions in this form of currency, and it is necessary to hold a considerable quantity of rupees in the Reserve to meet genuine demands for purposes of circulation. With the growing use of one-rupee notes these demands will, we hope, be reduced. In any case the present stock of rupees is unduly large. We therefore make a recommendation (paragraph 145 below), which will have the effect of ensuring the gradual reduction of the silver holding in the Reserve, during a transitional period of 10 years, from the present figure of Rs. 85* crores to Rs. 25 crores, on the basis of the present circulation.

81. We recommend that the balance of the Reserve be held in Government of India rupee securities and self-liquidating trade bills. For reasons which will be explained later, it is desirable to limit the holding of Government of India rupee securities to 25 per cent. of the Reserve, or Rs. 50 crores, whichever is less.

82. The new Reserve will have to maintain the external convertibility of a circulation which includes both paper and silver

* See first footnote on page 6.

tokens. As regards the former, the liability will, of course, be equal to the total outstanding note circulation. But in the case of the silver rupee such a cent. per cent. backing is neither possible nor desirable. There is obviously an irreducible minimum below which the rupee circulation cannot fall, if the business of the country is to be carried on. Moreover, even of that portion of the silver circulation which is potentially contractible only the difference between the face value and the realisable bullion value need be covered. Any estimate on such a subject must be largely conjectural and subject to variations in the price and marketability of silver. We have fixed a more or less arbitrary figure of Rs. 50 crores as the assumed liability of the Reserve in respect of the contractibility of the rupee circulation.

III.—A CENTRAL BANK FOR INDIA.

83. So far we have dealt with the standard of currency. We now proceed to deal with the question of the authority who should control the working of that standard.

The evidence has clearly brought out the inherent weakness of a system in which the control of currency and of credit is in the hands of two distinct authorities whose policies may be widely divergent, and in which the currency and banking reserves are controlled and managed separately one from the other. It has brought out the necessity of a unity of policy in the control of currency and credit in a modern financial organisation, if monetary stability is to be achieved. What has less clearly emerged from the evidence but none the less needs emphasis is how essential it is for the development of banking generally that the foundations of the credit organisation should be truly laid. This will only be the case if the commercial banks (a phrase in which are included both exchange and indigenous banks) are able, when the necessity arises, to turn into cash a maximum of their assets with a minimum of disturbance to general conditions. It is only through the establishment of a central banking system, with the facilities of re-discounting it affords, that this end can be achieved. Not until then does the commercial banks' most legitimate asset, viz., a short-term advance against goods in the form of a commercial bill, become a quick asset capable of prompt realisation in times of stress. The system, in fact, enables the commercial banks to regard their holdings of commercial bills as their secondary reserves.

84. The economic history of the great trading nations of the world during the last half-century demonstrates, far more clearly than any technical exposition of the workings of the system could demonstrate, the high efficiency of the system and its benign influence upon economic progress, wherever

it has been introduced. The United States of America has been one of the last to adopt it. It has done so under the stress of its disastrous experience of regularly and frequently recurring financial upheavals of gigantic proportions, directly traceable to the weakness of the system of decentralised banking and currency reserves. There are not a few students of financial affairs who hold that, if it had not been for the timely introduction of the Federal Reserve System in 1913, it is doubtful whether America, in spite of its enormous economic advantages, could have weathered the stress of the great war without grievous harm to its financial structure.

85. The Central Banks in other countries work under charters which, though differing in detail, are very similar as regards their fundamental lines. In general they are entrusted with the sole right of note issue and the responsibility of maintaining the stability of the currency. They are the custodians of the currency and banking reserves and of the cash balances of their Governments. Their business, in the main, is confined to that of a bank of the banks and of the Government. These functions of necessity require that the character of their business should be of the soundest. Such limitations upon their business prevent these Central Banks from transacting the every-day commercial banking business of the country or from entering into competition with the commercial banks in any general sense. But, in times of stress, they intervene vigorously in the country's business by extending credit facilities liberally. They are primarily concerned with upholding the credit of the country and guiding its financial policy.

We are of opinion that India, profiting by the experience of other nations, should perfect her currency and credit organisation by setting up a Central Bank with a charter framed on lines which experience has proved to be sound.

86. Before dealing with the technical questions of the Indian charter, it is necessary to consider who is to be entrusted with it. Should it be the Imperial Bank (which is now performing at any rate one or two of the functions of a Central Bank) or should it be a wholly new institution? The idea of utilising the existing organisation of the Imperial Bank is tempting at first sight, but on close consideration it will be found that, whatever advantages there may be in this course, the disadvantages outweigh them.

87. If the Imperial Bank were required to discharge the duties of a true Central Bank its charter would have to be amended radically in the direction indicated. It would thus be precluded from undertaking a great many tasks which it now successfully performs as a commercial bank. The country would then lose the benefit of the elaborate and widespread organisation which has been set up, through the length and breadth of India,

to make available to the community the increased commercial banking facilities, which are so urgently needed, and to assist in fostering, among the people as a whole, the habit of banking and investment. This consideration alone negatives the idea of disturbing the present functions of the Imperial Bank. It suggests, on the contrary, that that bank should be freed altogether from the restrictions which its present charter imposes upon it, and which clearly have their origin in the hybrid character of the functions which were originally assigned to it. When those of a purely central banking character are taken over—as they should be—by the new Central Bank, there is no longer any reason why the Imperial Bank should not be as free and unencumbered in its sphere of activity as any other of the commercial banks. Its important task of giving India the widespread banking facilities which it needs will thereby be facilitated. It may perhaps be apprehended that with the creation of the Central Bank the Imperial Bank will lose some of the prestige which at present attaches to it as the sole banker of the Government. But there are numerous ways in which its interests and its ability to continue its present policy of the extension of branch banking may be safeguarded. We can see no reason to doubt that the Imperial Bank could come to a satisfactory agreement with the new Central Bank whereby the latter would employ the former as its agents in the *mofussil* and, in consideration of this service, place at the disposal of the Imperial Bank such funds and for such periods as would be required to enable the Imperial Bank's branches to become self-supporting.

88. A middle course which has been suggested, and which has for its object a gradual process of what may be termed "de-commercialisation" of the Imperial Bank, is equally unattractive. The proposal is to confine the Bank's functions to those of a true Central Bank in the centres where adequate commercial banking facilities exist, and to permit it to do the ordinary commercial banking business in all those localities where, apart from the Imperial Bank, there is no other reputable bank established. It is proposed that only when in these localities one or two commercial banks have opened their establishments should the business of the Imperial Bank's branch be restricted to that of a Central Bank. This proposal suffers in the main from the same disadvantage that attaches to an immediate and complete conversion of the Imperial Bank into a Central Bank. Under it the Imperial Bank would be eliminated from the field of commercial banking in all the important centres (such as Bombay, Calcutta, Madras, etc.), and the wholesome competition it provides would thus be lost, while its hybrid character would be likely to weaken its functions both as a Central Bank in the important centres and as a commercial bank in the smaller centres.

89. We come, therefore, to the conclusion that the proper course to take is to entrust the central banking functions to a new organisation endowed with a charter which wholly conforms to the requirements of a true Central Bank. That new bank would no doubt take over from the Imperial Bank such part of its organisation and staff as under the new order of things may become redundant to the purposes of the Imperial Bank, and from the Government a number of officials whose experience in the management of the currency would be of particular help to the new Central Bank.

90. The future relations between the Government of India, the Central Bank, and the Imperial Bank, must be matters for negotiation between the parties concerned, and for that reason we refrain from making detailed recommendations under this heading. We desire however to state that in our opinion those negotiations, and the relations which they establish, should recognise the principle that there is work to be done in developing banking facilities, so essential in the interests of the Indian people, which the Imperial Bank has been doing, and can continue to do so long only as it receives some measure of official countenance and support. The banking organisation which India requires must be based, not upon a Central Bank alone as elsewhere, but upon a Central Bank, and a great commercial bank which has government countenance to inspire confidence in it amongst an uninstructed public, and whatever government assistance is needed to enable it to perform the function of the initiator of banking facilities. As to the extent of that assistance, we content ourselves with the observation that it should be designed to enable the Imperial Bank to maintain and develop its essential work of the provision of new branches.

The Capital of the Central Bank.

91. There is no need, nor is it in fact desirable, that a Central Bank should be endowed with any very great amount of capital. It is natural that those in charge of the Bank's affairs should desire to give to the shareholders as good a return as possible. The greater the capital, the greater must the profits be in order to produce a given return, and the greater therefore the incentive for the management to do business which it might be better to avoid. Moreover, we propose in a later paragraph that the Government should be entitled to a share of the profits of the Bank after a fixed preferred dividend has been allocated to the shareholders. If the capital of the Bank should be larger than is really required—and in the present state of development of the Indian rediscount market, the capital which is required for the business of the new Bank at the outset cannot be very large—the profit which accrues to Government would be considerably reduced on account of the preferred dividend on non-earning capital. Again,

while it would be possible to increase the capital later if found necessary, it would be somewhat difficult to reduce it. Taking these considerations into account, we are of opinion that a fully paid up capital of Rs. 5 crores would be sufficient, allowing even for a material expansion of banking in India.

The Imperial Bank will be called upon to give up to the new Central Bank some of the privileges it now enjoys. It is right, therefore, that the Imperial Bank's shareholders should be given the first opportunity of subscribing for the capital stock of the Central Bank. This is a valuable concession, for experience shows that the business of central banking is a profitable one, and that central bank stock in other countries usually ranks as high in the estimation of investors as Government securities.

The Name of the Bank.

92. This is largely a matter of taste and local psychology. After considering various alternatives, we suggest that the new bank be called the " Reserve Bank of India."

Board and Management.

93. The difficult problem of co-ordinating the management of a banking organisation with important establishments widely separated and with business widely differing in character in the various parts of the country, seems to have been solved by the Imperial Bank of India. The system of local head offices in the chief business centres, managed by Local Boards who are elected by the shareholders registered in the respective branch registers, appears to us to be as appropriate to the organisation of the Reserve Bank as it is to that of the Imperial Bank. The provisions of sections 23, 24, 25 and 26 of the Imperial Bank of India Act, 1920, should therefore be embodied in the charter of the Reserve Bank. The provisions regarding the election of members of Local Boards, etc., as embodied in regulations 43 to 48 inclusive, should similarly be followed, except in one respect. The term of office of the Presidents and Vice-Presidents of Local Boards, which, under the Imperial Bank Act, is fixed at one year, is too short to conduce to efficient work. We therefore recommend that the period be extended to two years, and that the limitation contained in regulation 44 (1), that no person shall be chosen to be President or Vice-President twice in succession, should be omitted.

94. Resolutions passed both by the International Financial Conference of Brussels (1920) and that of Genoa (1922) recommend, in identical terms, that " Banks, and especially Banks of Issue, should be free from political pressure, and should be conducted solely on lines of prudent finance." In the spirit of these resolutions, care should be taken to assure that a pre-

dominant majority of members of the Local as well as the Central Boards of the Bank should derive their mandate from the shareholders of the Bank by election, and that only a small minority of the Board should be nominated by Government. It has been sometimes urged that all members of the Board of a Central Bank of Issue should derive their mandate solely from the shareholders, none being nominated by the Government, but we consider that, in the particular circumstances of India, viz., the wide experience of the Government in the management of the currency and the great importance of the Government's banking and remittance business, it would not merely be appropriate but desirable that the Government should nominate a small minority of members on the Central Board, the members of the Local Boards being, as hitherto, elected solely by shareholders of the respective branch registers. We accordingly propose that the new charter should provide for the Central Board to be constituted as follows:—

(a) The Presidents and Vice-Presidents of the Local Boards established by the Act. In addition, each Local Board to select from among its members, by a majority vote, one member to serve on the Central Board for two years.

(b) A Managing Governor and a Deputy Managing Governor, who shall be persons of appropriate experience, and who shall devote their whole time to the affairs of the Bank, to be appointed by the Governor-General in Council for a period of five years, on salaries and allowances to be determined by the Central Board.

(c) Such number of persons, not exceeding three, and not being officers of the Government, as may be nominated by the Governor-General in Council. Such persons shall hold office for one year, but may be re-nominated.

The Central Board would thus be composed of 14 members, of whom nine would be elected by shareholders, a maximum of three would be nominated by the Governor-General in Council, and a Managing Governor and Deputy Managing Governor would also be nominated by the Governor-General in Council. In addition to the above 14 members, the Government should be entitled to nominate an official member to the Board who should have the right and duty to attend and advise the Board but not to vote.

Such a constitution will leave the Reserve Bank free from interference from the Executive in the day to day conduct of its business and in banking policy, a condition which we consider of paramount importance. At the same time, the Government, through its representative on the Central Board, will be kept closely in touch with the Bank, and there will be the mutual advantage of close co-ordination between the currency and credit policy and the financial policy of the country.

Sections 29 and 30 of the Imperial Bank Act should be embodied in the new charter.

95. To eliminate the danger of political pressure being exercised upon the Boards of the Reserve Bank, it is desirable to introduce a provision in its charter directing that no person shall be appointed President or Vice-President of a Local Board, or shall be nominated as a member of the Central Board, if he is a member of the Governor-General's Council, the Council of State, the Legislative Assembly, or of any of the Provincial Governments or Legislative Councils.

96. The Reserve Bank's principal function being to rediscount bankable bills held by the commercial banks, it is desirable that the Boards of the Reserve Bank should exercise their unfettered discretion in accepting or rejecting such paper, and it is therefore undesirable that representatives of any of the commercial banks should hold the position of President, Vice-President or member of a Local Board or that of member of the Central Board. A provision to this effect should be embodied in the charter.

Head Office.

97. The Head Office of the Bank should be established in Bombay, and the meetings of the Central Board should ordinarily be held there.

Votes of Shareholders at General Meetings.

98. Care must be taken to ensure that the policy of the Reserve Bank is governed by purely national considerations, and is not influenced by the interests of any individual section of the community. It is undesirable that it should be possible for any particular group to acquire control of the affairs of the Bank and impose its policy upon the country. It is imperative, therefore, to limit the number of votes which each shareholder is entitled to exercise, whatever his shareholding may be. Accordingly, a provision should be introduced into the charter that shareholders shall have one vote for every four shares (assuming that the shares are of Rs.500), of which they have been the registered holders for not less than six months, no shareholder, however, being entitled to have more than a total of ten votes, whether in his own name or as proxy.

The discretion which would be vested in the Local Boards (under the provision corresponding to section 26 of the Imperial Bank of India Act), to approve or refuse to approve transfers of shares, would also be exercised when necessary with a view to preventing the multiplication of individuals' voting power by transfer to nominees.

Division of Profits.

99. The business of a Central Bank should not be run mainly for profit. Dividends should be limited to a reasonable return on its capital, adequate provision being made for building up substantial reserves, especially in the earlier years. Limitation of the dividend must also be considered in connection with the question how the Government of India is to be compensated for handing over to the Reserve Bank the assets of the Paper Currency and Gold Standard Reserves, and the profits arising from the right of note issue. The simplest and most convenient way in which the Government could be compensated is by allocating to it certain of the surplus profits of the Bank above a limited dividend. We recommend that a plan of dividing profits in the following manner be adopted.

100. After making provision for bad and doubtful debts, depreciation in assets, and all such items as are usually provided for by bankers, and after payment out of the net profits of a cumulative dividend at the rate of five* per cent. per annum on the paid-up capital, there should be allocated to the reserve fund, until such reserve fund is equal to 25 per cent. of the paid-up capital, three-quarters of the surplus, and one-quarter to the Government. Thereafter, until the reserve fund is equal to the paid-up capital of the Bank, one-half of the surplus should be allocated to the reserve fund and the other half to the Government. When the reserve fund is equal to the paid-up capital of the Bank, one-eighth of the surplus, but not exceeding three* per cent. of the paid-up capital, should be paid to the shareholders, and the balance to the Government.

We must here anticipate an objection that may be raised against the above scheme, namely, that it is proposed to build up the reserve too rapidly, and at the expense of the "profits" which under the existing system would go to the taxpayer's relief. The present practice under which the profit from the Reserves is not available for the fortification of the Reserves is not in our opinion a sound one. But, even looking at the question from the standpoint of political expediency, we do not consider that our proposal would involve a fresh burden on the taxpayer. The maximum diversion of Government revenue to the accumulation of the reserve is only Rs.5 crores, and this should in our opinion be set against the resources which would be placed at the disposal of Government as a consequence of the amalgamation of the Gold Standard Reserve and the Paper Currency Reserve (*vide* paragraph 145 below), and which even if not immediately realised could no doubt be brought to the credit of revenue in the earlier

* These figures are quoted illustratively, and are subject to alteration in view of market conditions.

years, when the profits handed over by the Bank were not yet equal to those at present accruing from the Reserves. Strongly as we feel that the new Bank's reserves should be built up as rapidly as possible, we should not have recommended a fortification of the reserves at the rate proposed had we not been confident that it could be achieved without any fresh taxation or postponement of remissions of taxation.

Increase of Capital of the Bank.

101. The capital of the Bank might be increased by the Central Board from time to time with the approval of the Governor-General in Council, and the price at which shares might be issued for that purpose should be determined by the Central Board with the approval of the Governor-General in Council.

Business of the Bank.

102. In a separate schedule (Schedule II) attached to this Report we have drawn up a list of the business which the Bank might do and that which it might not do, and we recommend that it be embodied in the charter. The list has been drawn up on the basis of two principles, viz., that the Bank should be a true Central Bank and that its functions and capacities should be so organised as to secure that it should be made use of without suspicion or jealousy as the Bankers' Bank. We have advisedly made no provision in that schedule for the Reserve Bank having recourse to direct operations in the bill market; not that such a provision is unnecessary—we regard it as a cardinal provision in the charter of a true Central Bank if it is properly to discharge its primary duty of regulating credit and maintaining the stability of the currency; but in the present state of development of the bill market in India, we do not consider that open market operations by the Reserve Bank are an indispensable method for carrying out its credit policy. Rather we think that this development should follow in the wake of banking progress and the growth of a large and healthy bill market. Experience in other countries shows that with the creation of a Central Bank, and the consequential development of a sound banking system, the bill market comes into being in a surprisingly short time. In India, where the hundi or internal bill of exchange has been in existence for many years, we hope the growth of the habit of drawing bills instead of opening cash credits will be more rapid than elsewhere. In order to provide for such future development, the charter should enable the Reserve Bank to apply to the Governor-General in Council for power to buy and sell in the market bills of exchange, promissory notes or other commercial paper arising out of *bona fide* commercial or trade transactions bearing two or more good signatures and having a maturity not exceeding 90 days, if and when it finds such powers necessary to the

performance of its function of regulating the supply of credit. In deciding whether to grant or refuse this application, the Governor-General in Council would of course give due consideration to the possible effect, on the various classes of persons concerned, of the operation of the proposed new procedure. To avoid ambiguity, we should state that our proposal is that this power, if and when granted, should be granted once and for all; not that it should have to be applied for on each occasion.

Remittances for Financing the Home Treasury.

103. We recommend that the Reserve Bank should be entrusted with all the remittance operations of the Government in India and in London. The Government will thus cease directly to operate in the exchange market.

Such an arrangement is the natural consequence of the establishment of a Central Bank of issue. The business of remittance is essentially banking business. Since the bank of issue must be the bank of the Government in other matters, it is convenient and, as will be seen, essential that it should be so in this matter also; and it may be assumed that it will be able to transact the business at least as economically as the Government. Further, an obligation is imposed upon the Bank to maintain the value of the currency. The annual remittance on Government account amounts to some £35 millions, a large sum in proportion to the total foreign remittance business of the country. The time and method of making these remittances have an intimate connection* with the Bank's discharge of its obligations. It would be difficult, if not impossible, for the Bank to discharge its essential obligation to the currency unless it conducted the remittance business of the Government.

104. On the other hand, it has been suggested that the Reserve Bank, through its exclusive knowledge of its own bank rate policy, would, if allowed to deal in the exchange market, be placed in a position of undue advantage as compared with other banks and firms. Such an objection might perhaps legitimately be made if it were proposed to hand over the control of the currency, and the conduct of Government remittance, to a bank competing with other banks for ordinary commercial business. But it is misconceived, made in relation to a transfer to such a Bank as we propose. In that institution the other banks of the country will find, not a state-aided competitor, but a coadjutor and a potential source of support. The exchange operations of the Bank will normally be limited to the *bona fide* requirements of its customers (including the actual requirements of the

* The action of the Government by which in recent years part of the remittance first put through the treasury was subsequently put through currency, shows that the Government cannot carry on its remittance operations irrespective of their effect on the Indian money market or on currency policy.

Secretary of State) and to its necessary operations through and on account of the Reserve. We may point out that such operations may be necessary to the discharge of the responsibilities of the Bank, not only in the routine course of business, but in order to enable it to co-operate with other central banks in those joint measures which are increasingly necessary for the proper co-ordination of monetary policies. There is, therefore, no reason to suppose that its operations will be in any way to the disadvantage of the market.

105. It has been suggested that the Secretary of State has constitutional and statutory responsibilities to Parliament (including the particular responsibility to the holders of India sterling debt) which make it impossible for him to be satisfied with an obligation undertaken by a bank, however pre-eminent in status, to keep him supplied with funds. We are, however, unable to find that the duties and responsibilities laid upon the Secretary of State in relation to financial commitments in the United Kingdom are different in kind or extent from those laid upon him in relation to financial commitments in India, which are similarly incurred in his name. The latter are already discharged on his behalf by the Government of India, and are to some extent discharged through the agency of the Imperial Bank. If the Secretary of State is able to entrust to duly authorised agents the carrying out of his debt and remittance obligations in India, he may be satisfied similarly to employ an agent to keep him in funds for the implementing of his obligations in the United Kingdom. The employment of an agent does not imply the abrogation of the ultimate control and responsibility vested in the Secretary of the State. Should the agent not discharge the obligations which it has accepted, the power of the Secretary of State himself to discharge his own obligations is in no way qualified or diminished.

106. When arrangements have been made for the transfer of the conduct of Government remittance to the Reserve Bank, it will be necessary for the successful discharge of that function that the Secretary of State should furnish to the Bank in advance, through the Government of India, periodical information as to his requirements. It has been suggested in evidence that it would not be possible to forecast with accuracy the requirements for any considerable length of time ahead. Occasions may obviously arise when unexpected commitments, or increases of existing commitments, may materialise on a large scale. Any scheme must provide for meeting such a contingency, which would no doubt be of rare occurrence. But a great part of the Secretary of State's commitments are in respect of payments which are regularly recurring, or at least easily foreseeable; and it should not as a rule be difficult to produce reasonably accurate forecasts of the funds required. As regards minor variations between estimates and actuals, no difficulty is likely to arise. It is not, of course, suggested that it should be laid down that estimates

once furnished must be rigidly adhered to. The Bank would be primarily responsible for the programme of remittance, after giving due regard to the views of the Government of India. The Secretary of State will no doubt retain a working balance sufficient to ensure his having funds available to meet any ordinary and foreseeable excess of actual over expected expenditure.

107. The question by what methods the Government remittances to London should be made has in recent times occupied a prominent place in all discussions of the Indian currency system. With the creation of the Reserve Bank, the transfer to it of the remittance business, and the withdrawal of Government from active operations in the exchange market, the significance of these questions will be greatly reduced. If the Bank is given the right and duty of conducting the official remittance business, as part of its larger function of managing the currency and credit system as a whole, it should clearly be left free, at its discretion, to employ such method or methods as it may find most convenient and conducive to the smooth running of the machine. Under the new conditions, experience will soon teach—while nothing else can teach—by what methods the interests, commercial and financial, of the country can best be served.

108. We observe that the method of remittance by the purchase of sterling in the market in India, instead of the sale of council bills in London, has recently been introduced with advantage. We have received much evidence as to the respective merits of private purchase of sterling and of public tender. The main objections urged against the former system are that it involves undesirable secrecy and the possibility of favouritism, and against the latter that it is conducted by the Secretary of State in London. With regard to the latter objection, we are of opinion that the method of public tender could be employed in India with almost as much practical facility as it has been applied in London and with equal convenience to the commercial public. As regards the former, we recognise that there is some force in the objections under present conditions, but these will cease to have any weight when once the system proposed under our plan has been introduced and the obligation placed upon the Bank to buy and sell gold at the prescribed prices. Beyond these observations we do not desire to go in the direction of prescribing or limiting the methods of remittance to be employed by the Bank. To fetter its discretion in advance must be to waste the lessons of experience.

109. It is to be observed that the exchange operations of the Bank, although effected in large measure to meet the requirements of the Government, will not be the operations of the Government. The question, therefore, of publicity does not arise in connection with these operations, as it arises in the case of the exchange operations conducted directly by the

Government. We consider that the occasional suspicion attached to these remittance operations has been intimately connected with the circumstance that the maintenance of exchange at a certain rate was dependent to some extent on the discretion of Government. Having regard to the statutory obligation which we propose should be imposed on the Bank, to maintain the Indian currency stable within the gold points of a fixed parity, we see no urgent reason for the publication of these exchange transactions.

Remittance during the Transition Period.

110. We do not recommend any general departure from present practice in the matter of purchase of sterling, pending the transfer of the business of remittance to the Bank. At the same time, in view of the observation which we have made on the subject of purchase by public tender, we recommend that, in order to obtain valuable experience, a trial be made of that system in India on the first suitable opportunity, purchases in the market being employed only for the purpose of "intermediates" on days when tenders are not received. In the case of intermediate purchases also, we recommend that a trial be made of the system of offering fixed prices, to be publicly announced. Further, until the business of remittance is transferred to the Reserve Bank, we recommend that a weekly return should henceforward be published by the Government showing its remittances in the preceding week, and the manner in which they were made.

Relations of the Bank, the Government of India and the Secretary of State.

111. It has already been indicated, in general terms, that it is one of the primary functions of the Reserve Bank to act as the banker of the Government and to hold its cash balances. The centralisation in its hands of these balances and of the banking reserves in India of all banks operating in India is an indispensable condition for the proper discharge of the Reserve Bank's primary duty of controlling credit and consequently the volume of the monetary circulation. It is no less indispensable that all the remittance transactions of the Government should be entrusted to it, as recommended in the preceding paragraphs, and that any balances of the Government of India and of the Secretary of State outside India should be placed in the charge of the Reserve Bank, through its branches or agencies. Only then will any danger of the Government's remittance policy interfering with the proper management of the currency be eliminated. We recognise that this recommendation involves the amendment of section 23 of the Government of India Act. We recommend that such an amendment should be made.

112. The fact that Government balances held with the Imperial Bank in India bore no interest, while funds held in London could be employed remuneratively in the money market, appears in the past to have led at times to unduly large accumulations of funds in London. As the proposed plan contemplates that the surplus profits of the Bank should accrue to the Government, there appears to be no longer any good reason why this practice, militating as it inevitably does against the smooth working of the management of credit and currency, should be continued. The arrangement contemplated need not impair the valuable connection of the Bank of England with Indian financial affairs, as the Reserve Bank would, without doubt, closely collaborate with it in the ordinary course.

Note Issue and Reserve Requirements.

General observations.

113. Before setting out in detail the conditions which are to govern the note issue of the Reserve Bank under the proposed plan, a few general observations must be made on the Bank's responsibilities, and the machinery by which it is enabled to discharge them.

The primary task of the Bank.

114. The goal of all monetary policy is the achievement of stability of the purchasing power of the monetary unit, and the condition under which the sole right of note issue is entrusted to the Bank must clearly be the obligation to maintain stable the purchasing power of the rupee, both internally and externally. This stability will find expression internally in the stability of the general level of commodity prices, and externally in the stability of the purchasing power of the monetary unit in relation to gold, and consequently in relation to all exchanges with countries whose currencies are linked to gold through either a gold or a gold exchange standard. To assure this stability, it is indispensable that the obligation should be put upon the Bank at all times to buy and sell gold at fixed prices which are laid down in the charter. The question as to what these prices should be will be discussed later on.

The means to accomplish it.

115. What is the machinery which enables the Reserve Bank to undertake this obligation? The sole right of note issue, and the stoppage of all further issues of money by the Government of India except through the Bank, coupled with the power to impose upon the country a judicious credit policy—these give the Reserve Bank the means to control the volume of the monetary circulation in India, and thus to stabilise the purchasing power of the monetary unit. So long as the volume of the monetary

circulation does not exceed, or fall short of, the amount of money at any time needed for the exchange of the quantity of goods and services, which have to be exchanged (regard being had to the "velocity of circulation" and the frequency with which goods and services are exchanged), the purchasing power of the rupee will remain stable. The restriction of the monetary circulation within these limits is the fundamental condition for internal stability, while internal stability is the main factor to achieve external stability. To appreciate this, we need only think of the repercussions which instability of the general level of internal prices has upon the foreign trade of a country. A rise of internal prices (that is, a fall of the internal purchasing power of the monetary unit) relative to the world level of gold prices, will inevitably impede exports and stimulate imports, and cause the balance of foreign payments to be upset, and, with it, the exchanges. An internal depreciation of the monetary unit thus very soon produces external depreciation. The reverse is the case when internal prices fall below the world level of gold prices. It clearly follows that stability of internal prices in relation to the world level of gold prices will prevent those repercussions, and will therefore prevent instability of the external value of the monetary unit, that is, of the exchanges. And if the exchanges are stable, and keep within the upper or lower gold points set by the fixation of the price at which the Reserve Bank undertakes to buy and sell gold, it will not be called upon either to buy or sell gold. Provided, therefore, the Bank follows a judicious policy of limiting the monetary circulation to the actual needs of the country by an appropriate credit policy, and so keeps the internal value of the rupee stable, the obligation to buy and sell gold will cause it no embarrassment.

116. It is evident that a limitation of the monetary circulation to the real needs of the country postulates contraction and expansion of the currency in accordance with those needs. In a mainly agricultural country like India those needs fluctuate widely, not merely according to the seasons of the year, but also according to the abundance or otherwise of crops and the prices they command. If that part at any rate of the notes which the Bank issues to meet the need of expansion is secured by assets of a character corresponding to this need of expansion, that is, if these assets mature and are liquidated when the increased monetary circulation is no longer needed, the process of expansion and contraction becomes almost automatic. The true commercial bill, that is a bill drawn in respect of a genuine commercial transaction, has these characteristics in a pre-eminent degree. It is a self-liquidating asset in the sense that the liquidation of the commercial transaction liquidates the bill. It is for this reason that the charters of most of the central note-issuing banks provide for their note issues to be secured partly by commercial bills. The charter of the Reserve Bank of India should contain a similar pro-

vision. With a view to promote the growth of these commercial bills we recommend that the stamp duty on bills of exchange be abolished.* With the same aim, we also recommend the sale by post offices of bill forms in the English language and the vernacular in parallel.

We now turn to the other assets which are to be held by the Bank to secure its note issue.

Reserve to assure external stability.

117. While internal stability is a fundamental condition to assure the external stability of the rupee, it is nevertheless essential that the note issue should be secured to a substantial extent by assets which are capable of rectifying a temporary disequilibrium in the foreign balance of payments. Disequilibria are bound to occur, sometimes for seasonal causes, and sometimes for reasons of a bad harvest or financial stringency internally or externally. Gold and gold securities are the assets most suitable for this purpose, for they can be readily employed to discharge external liabilities, pending the adjustment of the disequilibrium through an appropriate credit policy by the Bank.

118. It is evident that the maximum amount which needs to be kept at any given time as a reserve to maintain the external value of the rupee is the amount by which India's payments abroad exceed her receipts from abroad at that time, or briefly, India's adverse balance of payments at any given time. But, as every sale of gold or gold exchange by the Reserve Bank operates in the direction of contracting the internal circulation, and as there is a point beyond which the contraction of the monetary circulation cannot be carried, it may be said that the size of the gold reserve need not exceed the maximum amount to which currency can be so withdrawn from circulation.

119. If notes were the only token money circulating in India, it would be a comparatively simple matter to determine to what extent they are to be secured by gold assets. The experience of other central note issuing banks is a valuable guide in this respect.

120. But the problem in India is a more complex one, due to the fact that the circulation of fiduciary money of unlimited legal tender in India consists of rupee coin as well as of notes, that the amount of rupee coin in issue cannot be assessed accurately, and that an unknown, but certainly substantial, proportion of

* It was stated in evidence that in America there was at one time a stamp duty on bills of exchange. It was found to restrict the development of the type of paper essential to the functioning of a money market, to render difficult the adjustment of the Federal Reserve Bank rates and to interfere with the operation of the Reserve Bank. This duty was the first to be abandoned when at the end of the recent war America undertook the reduction of taxation.

rupees in issue does not ordinarily serve as a medium of exchange, but is held as a store of wealth. Rupees which do not ordinarily serve as a medium of exchange, when employed for the purchase of gold at the Reserve Bank, do not cause a contraction of the monetary circulation in the accepted sense. Their use for this purpose does not therefore produce the automatic reaction on internal prices which is produced by a contraction of that part of the rupee circulation which is doing money's work.

121. The system of currency which we recommend makes it improbable, however, that these rupee hoards will be presented immediately for conversion into gold, for none of its provisions create an incentive to do so. It seems, nevertheless, desirable to provide for this contingency, for the Reserve Bank could obviously not face the strain and loss which would fall on it if these rupees were tendered in wholesale fashion for conversion into gold, and if it had to sell them for the value of their silver contents. To safeguard its position the following measures are recommended. There should be added to the liabilities, over and above the liabilities in respect of the note issue, an amount of Rs. 50 crores which is to be secured by assets in the same manner as if it formed part of the note issue. The Bank should, moreover, be given the right to deliver to the Government against payment in the form of notes, gold or gold securities (at the rate of Rs. 4 for each Rs. 5 of rupee coin), all the rupee coin coming into its possession in excess of certain specified amounts, which are to be regarded as the upper limits to which rupee coin may be held as a reserve asset.

122. The effect of this provision is that, if and when silver rupees are withdrawn from circulation as redundant, the obligation to finance the withdrawal falls on the Government of India, and that is the quarter in which it should fall, because it was the Government that put them into circulation. But to assist in the finance, under the five to four ratio the Government of India, as is reasonable, receive back from the reserves, *pari passu* with the withdrawal, an amount which may be regarded as roughly equivalent to the original profits on coinage, the proceeds of which, accumulated in the Gold Standard Reserve, we propose to make over to the Bank.

123. The official witnesses in India have submitted estimates tending to show that the total amount of rupee coin at present in issue is from 350 to 400 crores. Taking the latter figure, and deducting from it 150 crores, as the amount which, in their opinion, could in no event be spared from the circulation, they come to the conclusion that an amount of Rs. 250 crores may be regarded as that part of the rupee circulation which does not primarily serve monetary purposes. Differences of opinion

exist as to the minimum amount of rupees required by the large masses of the Indian population for the carrying on of small transactions. We are unable to frame any reliable estimate of this amount, but we do think that, in order to establish the new system on the safest basis, we should take the safest figure of rupee contractibility, viz. : that put forward by the official witnesses, as our guide. The figure of 250 crores includes Rs. 85* crores of silver coin and bullion now held in the Paper Currency Reserve, of which, on the basis of the figures given for purposes of illustration in paragraph 144 below, 67 crores should be handed over to the Reserve Bank on taking over the note issue, while the balance of 18 crores should be retained by the Government for gradual disposal. If, as does not seem unlikely, the 67 crores gradually go into circulation, the total amount of rupees that might then be spared from circulation may be assumed to amount to about 232 crores. It is this amount which, while outstanding, would be secured by the 50 crores of addition to the Reserve. If and when these rupees come back from circulation and are delivered to the Government under the before-mentioned proposal, these 50 crores will be diminished at the rate of 1 rupee for every 5 rupees of redundant rupees delivered. In the event of further rupees being issued by Government on the Bank's demand, this process would, of course, be reversed.

124. Having in this manner provided for the possibility of hoarded rupees being converted into gold, it remains to deal with the gold and gold security reserve to be provided for that part of the monetary circulation, which truly serves as a medium of exchange. If it be assumed that 150 crores of rupee coin can in no circumstances be spared from the circulation—and this is the minimum estimate—we have finally to determine what proportion of the notes in issue can be spared from circulation, and what gold and gold security reserves should be held for the purpose.

The system of note issue.

125. Before we can proceed with this question further, it is necessary to consider the system of note issue which is likely to prove most suitable to the particular conditions of India, and which it is therefore desirable to adopt.

If we go by the precedents of the currency legislation of other countries, we have two well-defined systems to choose from.

126. There is first what may briefly be termed the fixed fiduciary issue system, which has been adopted by England under its Bank Charter Act of 1844. By this Act the Bank of

* See first footnote on page 6.

England is authorised to issue its own notes on the security of Government Debt to an amount fixed by statute. Any additional notes over and above this fixed fiduciary limit have to be secured by a gold backing of 100 per cent. The system rests on the thoroughly sound doctrine that there is a minimum of currency which must always remain in circulation unless the mechanism of exchange is to break down completely, and that, so long as the fiduciary issue is well within that minimum, there is no danger of the purchasing power of the currency being adversely affected.

127. The Act of 1844 requires the separation of the business of note issuing and banking into two separate departments—the Issue Department and the Banking Department. The Issue Department deals exclusively with the issue and redemption of notes. It holds the gold reserves, and creates on their security and on the security of the fixed amount of Government Debt all the notes that it is entitled to create under the Act. The notes so created and issued to the public constitute the active circulation, while the balance of notes created but not issued to the public constitutes the Reserve, which Reserve is held by the Banking Department. That Department is concerned with the discount, credit, and banking business generally. The size of that Reserve constitutes the limit to which the currency can be expanded. If more currency is needed (as, for instance, in a severe crisis), nothing remains but to suspend the Bank Act. That, as is well known, has happened three times in the history of the Act up to the outbreak of the great war.

128. It will be appreciated that, under this system, expansion or contraction of the note issue beyond the fixed fiduciary limit takes place at a rate exactly corresponding to the increase or decrease of the gold reserves. The system is a cautious one, but safety is secured at the expense of elasticity. In spite of its rigidity, however, the system has worked well in England, not because expansion and contraction are not as necessary there as they are in other countries, but because the widespread development of the joint stock banking organisation of the country has led to the cheque, and not the bank note, being the chief medium of exchange. Expansion and contraction of the currency in England thus takes place through the cheque currency, and so imparts to the system the necessary elasticity.

129. The other system which might be chosen is that in operation in many of the countries on the continent of Europe, in the United States under the Federal Reserve system, and in South Africa. It may conveniently be termed the proportional reserve system. The system does not require the note issuing and banking functions to be separated into two departments. Under it, the notes in active circulation are secured by a minimum percentage of gold or gold securities, which is laid

down by statute, and which is 40 per cent., in the case of the Federal Reserve System and in South Africa, and is less in other countries. These minima, however, are not rigidly fixed, but may be transgressed with the consent of the Government for short periods on the condition that the issuing bank pays a tax reckoned on the amount of the deficiency. This tax is made to rise steeply as the deficiency increases. It will be appreciated that the fact that the Government's permission has to be obtained, and that this permission is only given for comparatively short periods, and further, that the bank has to pay a steeply rising tax, forces the bank to take prompt measures to redress the situation by an appropriate credit policy. It will also be appreciated that, under this system, an actual suspension of the Bank Act need not take place.

130. Its chief characteristic is that expansion and contraction do not, as in the case of the fixed fiduciary issue, take place at the same rate as the gold reserves increase or decrease, but that it permits expansion, and forces contraction to take place (assuming as an example the Federal Reserve system) in the proportion of 100 : 40. An addition of 40 units to the gold reserve permits the bank to issue notes to the amount of 100 units. Conversely, a loss of reserves of 40 units forces a contraction of notes to the extent of 100 units. The system thus permits of a far wider range of expansion and contraction than the fixed fiduciary issue system. It should be mentioned, however, that the Central Banks working under this system ordinarily maintain a reserve ratio far above the legal minimum. Their reserve, in pre-war days under normal conditions, used to be in the neighbourhood of 50 to 60 per cent. The system, it will be seen, possesses the quality of elasticity to a far greater extent than the fixed fiduciary system. The objection is sometimes raised that, because of this greater elasticity, it lends itself to inflation, and is therefore less to be recommended than the fixed fiduciary issue system. It may, on the other hand, be said that, as the fixed fiduciary issue system can only work satisfactorily where the chief medium of payment is not the note but the cheque, the scope for inflation through an undue expansion of credit is just as great as it is in the case of the proportional reserve system, with legal tender money as the chief medium of exchange. Both systems obviously require prudence in the management of currency and credit.

Proportional reserve system recommended for India.

131. Joint stock banking and the use of the cheque as currency are already developing in India, but they can hardly be expected to develop sufficiently quickly to mitigate the rigidity of the fixed fiduciary issue system. In the past complaints have often been heard that the Indian paper currency has been made unduly rigid by the attempt to imitate the provisions of the English

Bank Charter Act. The need for seasonal expansion and contraction in India is particularly pronounced owing to the mainly agricultural character of its internal economy. We therefore recommend the adoption of a proportional reserve system of note issue; and the outlines of the charter presented later in this Report have been framed on that principle.

Gold and gold security reserve.

132. In the light of the experience of other note-issuing banks which are working this system, it seems safe to provide for the gold and gold securities in the reserve to be not less than 40 per cent. of the liabilities, *i.e.*, of the notes in issue *plus* the 50 crores on account of outstanding rupees. The Bank would, of course, in normal times, work to a percentage much higher than the 40 per cent. minimum.

Other reserves.

133. The remainder of these liabilities might be secured by Government of India rupee securities and rupee coin, though certain qualifying conditions should be made in regard to their use as reserve assets.

134. Dealing first with the use of rupee coin for the purpose, the following considerations are relevant. The scheme under consideration contemplates no statutory obligation upon the Reserve Bank to convert its own notes into rupee coin. There is therefore no logical necessity for the Bank to hold rupee coin in its Issue Department (though it will doubtless hold it in appropriate quantities in its Banking Department) when once the Government of India notes have been replaced by Reserve Bank notes. The desirability of eliminating rupee coin from the Issue Department is emphasised when its worth as a reserve asset is examined. From the point of view of the management of the currency by the Bank, the rupee coin is indistinguishable from the notes it issues, in spite of the fact that the rupee, appropriately described as a "note printed on silver," is made of a more costly material than the paper note. Both are tokens depending for their purchasing power upon the limitation of their issue, and both require to be secured by an adequate amount of gold and gold securities to assure their external value. The fact that some 85* crores of rupees have found their way into the Paper Currency Reserve is proof that, for the time being at any rate, they are redundant. Hence their unfitness as an asset to secure the stability of the purchasing power of the currency.

135. On the other hand we propose, for the reasons indicated in paragraph 69 above, to make it incumbent on the Bank to supply rupees freely to the public in such quantities as may be required for circulation, and we propose to lay on the Government

* See first footnote on page 6.

the duty of supplying rupees to the Bank in order to enable it to carry out this obligation. It is conceivable that a large rise in the price of silver might prevent the Government from discharging this duty, in which case the Bank would be freed from its obligation. But so long as the obligation prevails it is reasonable to permit the Bank to hold some of the rupees required to fulfil it in the Reserves of the Issue Department. The present stock is undoubtedly excessive, and we propose that a part of it should be retained by Government. The balance of (say) 67 crores will be made over to the Issue Department at the outset, and it is not unlikely that a considerable portion will be absorbed as a necessary addition to the currency in the first few years. If rupees are wanted for this purpose they will automatically flow out of the Issue Department, and will then be replaced by assets of a more desirable kind, such as commercial bills, or gold. If, on the other hand, they are not wanted, and do not flow out of the Issue Department, they are clearly undesirable as a reserve asset, and should therefore be got rid of deliberately and be replaced by assets of a more eligible character.

These considerations have led to a provision being included in these proposals to limit the quantity of rupee coin which the Bank is permitted to hold in its Issue Department to gradually diminishing amounts spread over 10 years.

136. Dealing with the question of the propriety of including Government of India securities among the reserves, it is easy to appreciate that they form a far less desirable asset than commercial bills, for they lack that most useful quality of the latter to expand and contract the currency automatically in accordance with the needs of the country. In the case of Government securities, expansion and contraction depends entirely upon the will and judgment of the currency authority, and is therefore more liable to errors of judgment. A large holding of Government securities, moreover, might give rise to difficulties in connection with their realisation if the need for it arose. Their inclusion among the reserve assets of the Issue Department can therefore only be justified if the amount held is limited to only so much of the circulation as is unlikely, in any circumstances, to be withdrawn, *plus* such further amount as can in all probability be realised without causing an undue disturbance of the Government's credit.

Even the conditional utility which attaches to ordinary securities is absent in the case of the "created" securities that now find a place in the Reserve. In respect of these, we recommend that the Government should be required to replace them by marketable securities gradually within a period of 10 years.

Separation of the Banking and Issue Departments.

137. We have stated above that the proportional reserve system does not necessitate the separation of the banking and

note issuing functions of a Reserve Bank. Wherever the system is in operation no such separation is in fact made. If, nevertheless, in the plan submitted in our Report such a separation is proposed, it is because we have been impressed by the view put forward by many witnesses that the accounts of the Reserve Bank should be presented in the simplest possible form, and that it is essential from this point of view to set out in a separate statement the assets and liabilities in respect of the note issue. We think that such a separation would inspire greater confidence in the new note. Although this is a novel way of dealing with the matter, there would seem to be no strong reason why it should not be adopted.

Government Guarantee of the Bank Note.

138. We recommend that the notes of the Bank shall be guaranteed by the Government of India. The purpose of this guarantee is to promote confidence in the notes of the Bank. A double change is proposed in the status of the note. It is to be a bank note instead of a Government note, and it is to be convertible into gold bars and not as of right into silver rupees as in the past. In order to obviate any discredit that might attach to the new note in consequence of these changes, it is in our opinion essential that the note should be guaranteed by the Government at least for the first period of the Bank's charter. We propose below a provision which will adequately secure the Government in respect of that guarantee.

Outlines of the Proposed Provisions of the Charter.

139. It will be convenient now to formulate, amplify and summarise the plan for the Reserve Bank which we recommend, in the form of outlined provisions for a charter.

Relations with the Government of India and the Secretary of State.

140. The provisions of the charter dealing with the relations of the Bank, the Government of India and the Secretary of State, should be framed to cover our general recommendations, as follows :—

The Bank undertakes to accept monies for account of the Government of India and the Secretary of State and to make payments up to the amount standing to the credit of their accounts, and to carry out all their exchange, remittance, investment and other banking operations, including the management of the Government of India Debt, on conditions to be mutually agreed upon.

The Government of India and the Secretary of State undertake to entrust the Bank with all their money, remittance, exchange and banking transactions in India, London and elsewhere, subject, in the case of London, to existing or future

arrangements with the Bank of England, and in particular to deposit, free of interest, all their cash balances and to concentrate all their money transactions at the Bank, its branches or agencies. The Government of India and the Secretary of State undertake, further, to entrust the Bank with any transactions they may desire to undertake in gold and securities, as also their ordinary transactions in silver, with the management of the Government of India Debt both in India and in London, and with the issue of any new loans, subject, however, to existing or future arrangements with the Bank of England in regard to the management of the Government of India Debt in London and the issue of new loans there.

Note issue.

141. The Bank shall have the sole right to issue bank notes in India for a period of (say) twenty-five years, provided that the Government of India may continue to issue notes as heretofore during such time as the Bank requires to put itself in a position to issue its own notes in substitution for the Government of India notes now in circulation. As soon as the Bank has notified the Government that it is in a position to issue notes, the Government shall cease to issue or re-issue its own notes, or any other type of paper money. Not later than five years from the date of the charter becoming operative the Government of India notes still outstanding shall cease to be legal tender except at Government treasuries.

Denomination of notes.

142. The denominations of the notes issued by the Bank shall be 1, 5, 10, 50, 100, 500, 1,000 and 10,000 rupees, or such other denominations as may be approved of by the Governor-General in Council.

Issue Department.

143. The issue of bank notes shall be conducted by the Bank in a department to be called "The Issue Department," which shall be separated and kept wholly distinct from the department in which its general banking business is carried on and which is to be called "The Banking Department." The assets of the Issue Department shall not be subject to any liability other than the liabilities of the Issue Department as defined in the charter (see paragraph 146). It shall be lawful for the Central Board of Governors, if they think fit, to appoint a Committee, or Committees, of Governors for the conduct and management of the Issue Department, and from time to time to remove the members, and define, alter and regulate the constitution and powers of such Committee as they shall think fit. Provided nevertheless that the Issue Department shall always be kept separate and distinct from the Banking Department.

Transfer of reserves to the Issue Department.

144. There shall be transferred and appropriated by the Government of India to the Issue Department of the Bank the following assets, to be set forth in detail in a schedule to be attached, viz. :—

	Crores.
Rupee coin of a face value of	67
Rupee securities of a market value of . . .	50
Gold securities of a market value of . . .	88
Gold coin and bullion at par value . . .	30
	235*

Thereupon there shall be delivered by the Issue Department to the Banking Department such an amount of bank notes as, together with the Government of India notes then in circulation, shall be equal to the aggregate amount of the rupee coin, rupee securities, gold securities and gold coin or bullion so appropriated to the Issue Department, less a sum equal to the amount of the rupee redemption liability referred to in the section (paragraph 146 below) dealing with the "Definition of liabilities of the Issue Department."

From and after such transfer and appropriation to the Issue Department, it shall not be lawful for the Issue Department of the Bank to issue its notes to the Banking Department except in exchange for other notes of the Bank, or Government of India notes, or for gold coin and bullion, or gold securities, or rupee coin, or Government of India securities, or such bankable bills of exchange as are permitted under the charter to form the security for the issue of the Bank's notes. Provided always that it shall be lawful for the Banking Department to pay out all Reserve Bank notes which it shall at any time receive from the Issue Department, or otherwise, in the same manner as such payment would be lawful if made by any other person.

Reserve requirements.

145. The character of the Reserves, which it shall be lawful for the Issue Department to hold as security for its liabilities, should be closely defined. Of its *holding of gold coin or bullion*, at least one-half shall be held in the Bank's custody in India, while the remaining half may be held outside India in the custody of its branches or agencies or deposited in other banks earmarked for the Bank's account. Gold in any Mint or in transit belonging to the Bank shall be counted as part of its reserves.

* These figures are as shown in Schedule III, based on the note circulation figures of 30th April, 1926, and are illustrative only.

The *gold securities* which it shall be lawful for the Issue Department to hold as part of its Reserves shall be securities the capital and interest of which shall be payable in a currency which is exchangeable into gold on demand and exportable in that form. They may be the following :—

(a) Balances standing to the credit of the Issue Department of the Bank at the Central Note Issuing Bank of a foreign country ;

(b) Bills of Exchange of a maturity not exceeding 90 days bearing at least two good signatures drawn on and payable at a foreign money centre ;

(c) Securities of Governments other than the Government of India.

Provided that for a period of 2 years from this charter becoming operative the Issue Department may hold Government of India sterling securities to an amount not exceeding Rs. 7 crores, and provided further that, after the lapse of 2 years at least one-half of the securities of Governments other than the Government of India shall be of a maturity not exceeding 5 years.

The Reserves to secure the liabilities of the Issue Department must consist of gold or gold securities to an amount of not less than 40 per cent. of these liabilities, provided that the holding of gold coin and bullion shall not be less than 20 per cent. of the liabilities after the end of the 5th year and 25 per cent. of the liabilities after the end of the 10th year from the date of the charter becoming effective. In no case, however, shall it be less than Rs. 30 crores. In order to enable the Issue Department of the Bank to show in its opening accounts a reserve ratio of not less than 50 per cent., that is to show a good margin above the minimum requirement, the Government of India should be required to replace any necessary amount (Rs. 7 crores, on the basis of the figures of note circulation on the 30th April last) of created rupee securities by gold securities. If the Government should find it inconvenient immediately to provide other suitable gold securities, they may be allowed to replace such rupee securities by an equivalent amount of Government of India sterling securities (created *ad hoc*), these to be replaced within 2 years by gold securities of the kinds specified above.

The balance shall be secured by the holding in the Issue Department of rupee coin, Government of India rupee securities and such domestic drafts, bills of exchange and bankers' acceptances as are eligible for purchase by the Bank under this charter, provided that the rupee coin held shall not exceed the amounts specified in the following table, or 10 per cent. of the liabilities of the Issue Department, whichever is the greater :—

Rs. 70 crores until the end of the third year,

Rs. 50 crores from the end of the third to the end of the sixth year,

Rs. 35 crores from the end of the sixth to the end of the tenth year,

Rs. 25 crores thereafter ;

and provided further that the Government of India rupee securities held shall not exceed 25 per cent. of the liabilities with a maximum (overriding) of Rs. 50 crores.

At the outset, any excess in the combined assets of the Paper Currency and Gold Standard Reserves over the liabilities (as defined in the next succeeding clause) shall be retained by the Government in the form of silver bullion and coin. Schedule III to our Report shows, on the basis of the figures of 30th April, 1926, the assets and liabilities of the Issue Department.

Definition of liabilities of the Issue Department.

146. The liabilities of the Issue Department referred to in the preceding paragraph (Reserve Requirements) shall be an amount equal to the amount of Government of India and Bank notes in issue plus an initial amount of 50 crores in respect of "rupee redemption," which latter amount is to be reduced by one rupee for every five rupees delivered to the Government of India by virtue of the provisions in the next succeeding paragraph. The reverse procedure shall be followed when rupees are issued by the Government to the Bank, i.e. the rupee redemption liability will be increased by one rupee for every 5 rupees so issued.

Right to deliver redundant rupees to Government.

147. The Bank shall have the right to deliver to the Government of India against payment of four rupees in notes, gold or gold securities for every five rupees coin so delivered all the rupee coin of which it may become possessed in excess of the amount which, under the clause headed "Reserve Requirements" it is permitted to hold as part security for the liabilities of the Issue Department. Conversely the Bank shall be entitled to obtain rupees current under the Coinage Acts from the Government of India on payment of 4 rupees in notes, gold or gold securities for every 5 rupees so obtained.

148. The Government of India shall undertake not to re-issue any rupee coin delivered under this or the preceding clauses nor to coin and put into circulation any fresh rupees, except to the Bank and on the Bank's demand. The Bank, on the other hand, shall undertake not to dispose of rupee coin otherwise than for the purposes of circulation or by delivery to Government as hereinbefore prescribed.

Notes to be legal tender and guaranteed by Government.

149. The notes of the Bank shall be legal tender for the payment of any amount, and shall be guaranteed by the Government of India. If and when the Bank fails to comply with the provisions of clauses 150-151 to buy and sell gold on the prescribed conditions, and the Government's guarantee thus becomes operative, or if and when it fails to comply with any other provision of the charter, which in the opinion of the Governor General in Council is essential, the assets held in the Issue Department shall become the property of the Government so far as they are required to meet the liability of the notes or of rupee redemption. Such failure shall involve the forfeiture of the privilege of note issue, unless it were caused by an impediment due to *force majeure* and recognised as such by the Governor-General in Council.

The Bank to sell gold.

150. The Bank shall sell to any person who makes a demand in that behalf at its offices at Bombay, Calcutta or Madras, during the office hours of the Bank, and pays the purchase price in any legal tender money, gold bullion for delivery at its Bombay office at the price* of Rs. 21 as. 3 ps. 10 per tola (180 grs.) of fine gold, but only in the form of bars containing approximately 400 oza. (1,065 tolas) of fine gold. Provided that whenever the market rate for the selling price of telegraphic transfer on London is less than the upper gold point of the exchange as defined below, the Bank shall sell gold as aforesaid for delivery at its office at Bombay or in London at the option of the purchaser at prices hereinafter called the notified prices.

The upper gold point referred to above is equivalent to 1s. 6d. gold *plus* a proportionate amount to cover the cost of shipping gold bullion from London to Bombay, including packing, freight, insurance, and loss of interest, and shall be determined and published in the same manner as the notified prices. The notified price for delivery in London shall be the said price of Rs. 21 as. 3 ps. 10 per tola, with the addition of an amount corresponding to the expenses of the shipment of gold bullion from Bombay to the Bank of England, London, including packing, freight, insurance, and loss of interest. The notified price for delivery in Bombay shall be the said price *plus* an amount corresponding to twice the said expenses. The notified prices shall be calculated by the Bank from time to time as necessary. They shall be submitted to the Government of India, which shall satisfy itself that they have been calculated in the manner provided above, and certify the same. They shall be published with the certificate by notification in the Gazette of India, and the publication of the

* The figures in this paragraph are based upon our recommendation in section IV of the Report regarding the parity of the rupee.

notification and certificate shall be conclusive as between the Bank and all parties as to the prices at which the Bank shall sell gold.*

The Bank to buy gold.

151. The Bank shall be obliged to buy from any person who makes a demand in that behalf at its offices in Bombay, Calcutta, and Madras, during the office hours of the Bank, in exchange for any legal tender money, gold bullion for delivery at its Bombay office at the price of Rs. 21 as. 3 ps. 10 per tola of fine gold, but only in the form of bars containing approximately 400 ozs. (1,065 tolas) of fine gold; provided always that the Bank shall in all cases be entitled to require such gold bullion to be melted and assayed by persons approved by the Bank at the expense of the parties tendering such gold bullion.

The Bank to maintain the free interchangeability of the different forms of legal tender currency.

152. It shall be the duty of the Bank to maintain the free interchangeability of the different forms of legal tender currency. It shall issue notes on demand in exchange for rupees and it shall, in exchange for notes of Rs. 5 or upwards, supply notes of lower value or rupees or other token coins in such quantities as may be required for circulation. It will be the duty of the Government to supply such silver rupees or other token coins to the Bank on demand. Should the Government at any time fail to discharge this duty the Bank will be released from its obligation to supply such coins to the public.

Suspension of Reserve requirements and tax on note issue.

153. The Bank shall be authorised and empowered, subject to the consent of the Governor-General in Council, to suspend for a period not exceeding 30 days, and from time to time to renew such suspension for periods not exceeding 15 days, the requirements as to gold and gold securities reserve specified in the charter; provided that, upon the amounts by which the reserve for the notes falls below the requirements of the charter in respect of such notes, a tax shall be paid to the Government equal to the Bank's discount rate in force at the particular period plus one per cent. per annum when the gold and gold securities reserve against the notes is less than 40 per cent. but more than 32½ per cent, and an additional 1½ per cent. per annum in respect of each 2½ per cent. decrease or part thereof by which the reserve falls below 32½. Provided that the tax shall in no event be less than 6 per cent.

* As to the calculations concerned, see Schedule I.

Bank exempt from further note tax.

154. The Bank shall be exempted from the payment of any tax or duty upon its note issue, other than the graduated tax provided for in the last preceding paragraph.

Condition of note currency.

155. The form and material of the notes issued by the Bank shall be approved by the Governor-General in Council.

The Bank shall not re-issue notes which are torn or partially defaced or are soiled by excessive handling, and provision shall be made by the Bank for the disinfection and sterilization of notes before re-issue.

In order to express on the face of the new note the cardinal features, viz., the guarantee of Government and the fact that it is essentially a Bank note, we suggest that its form should be as follows:—

<p>RESERVE BANK OF INDIA.</p> <p><u>GUARANTEED BY</u></p> <p><u>THE GOVERNMENT OF INDIA.</u></p> <p>ONE HUNDRED RUPEES.</p> <p>Reserve Bank of India notes are legal tender for the payment of any amount and are convertible into gold in accordance with the provisions of Act of.....</p> <p>Issued by the Reserve Bank of India under the authority of the above Act.</p> <p style="text-align: right;">..... <i>Chief Cashier.</i></p>

Audit.

156. The provisions of the Imperial Bank of India Act, 1920, Schedule II, regulations 58 to 60 inclusive, regarding the election of auditors, the right of the Governor-General in Council to appoint an auditor, and their rights and duties, seem appropriate and should be embodied in the new charter, with one modification, namely, that instead of three auditors, the new charter shall provide for not less than two auditors or firms of auditors.

Returns.

157.—(1) The Bank shall make up and transmit to the Governor-General in Council weekly an account of the Issue Department and of the Banking Department in the form set out in Schedule IV. The Government shall cause copies of these accounts to be published in the next succeeding issue of the Gazette of India.

(2) The Bank shall also, within two months from the close of each half of the financial year, transmit to the Governor-General in Council a copy of its half-yearly accounts, signed by the Managing Governor, Deputy Managing Governor, and the Chief Accountant of the Bank, and certified by the auditors, and the Government shall cause such copies to be published in the Gazette of India.

(3) The Bank shall also, within 60 days after the 31st December in each year, transmit to the Governor-General in Council a list giving the names, addresses and occupations and the number of shares held by each shareholder of the Bank.

Bank rate.

158. The Bank shall make public from time to time the minimum rate at which it is prepared to buy or rediscount bills of exchange, or other commercial paper eligible for purchase under the charter.

Secrecy as to the business of the Bank.

159. The Governors, officers and employees of the Bank shall be obliged to maintain secrecy in regard to the affairs of the Bank and its customers, and any person contravening this provision shall be liable to a heavy pecuniary fine or imprisonment, or both.

Falsification of books, statements, etc.

160. Any Managing Governor, Deputy Managing Governor, Governor, officer, or employee of the Bank—

(a) who falsifies any account, statement, return or other document respecting the affairs of the Bank, with intent to defraud or in a manner calculated to deceive shall be guilty of an offence and liable on conviction to imprisonment or to a fine, or to both.

(b) who negligently and in breach of his duty makes, prepares, signs, approves or concurs in any account, statement, return or other document respecting the affairs of the Bank containing any false or deceptive statement, shall be guilty of an offence, and liable on conviction to imprisonment, or to a fine.

*Cash Reserves to be maintained by banks and bankers
against deposits.*

161. It seems highly desirable that the Bank Act should also include provisions compelling every bank or banker transacting business in India, from a date to be notified by the Governor-General, to establish and maintain minimum reserve balances with the Reserve Bank equal to 10 per cent. of its or his demand liabilities to the public in India, and 3 per cent. of its or his time liabilities to the public in India. It should be made obligatory upon every bank or banker transacting business in India to make a return at the end of each month, signed by the Chief Officer and Chief Accountant, or, in the case of a private firm, a Partner and the Chief Accountant of the firm, and to send such return to the prescribed officer of the Government and to the Bank, showing:—

- (a) The amount of the demand and time liabilities respectively to the public in India;
- (b) The amount of Government of India and Bank notes respectively held in India;
- (c) The amount of rupee coin and subsidiary coin respectively held in India;
- (d) The total amount of advances and discounts respectively in India; and
- (e) The reserve balances held at the Reserve Bank.

Failure to comply with this provision should be subject to a penalty recoverable by action in a competent court. A summary of such monthly return for each bank or banker should be published in the Gazette of India.

When it appears from any monthly return that any bank or banker has failed to maintain the required reserve balances it shall be competent for the Government of India to call for such further return, or make such inspection of the books and accounts of the bank in default as may be necessary to ascertain the amount of the deficiency and period during which it continued. The bank so in default shall incur a penalty at a rate per annum which shall be 3 per cent. above the Reserve Bank's official discount rate on the amount of the deficiency for each day that it continued. The penalty shall be raised to 5 per cent. above the Reserve Bank's official discount rate after the first seven days of the deficiency. No bank or banker may at any time make new loans or pay dividends unless and until the reserve balance required under this section is restored.

Interpretation of term "Bank or Banker."

162. We suggest that the term "bank or banker" should be interpreted as meaning every person, firm, or company, using in its description or title "bank" or "banker" or "banking."

and every company accepting deposits of money subject to withdrawal by cheque, draft, or order. We recognise, however, that in view of the special conditions of indigenous banking in India, this matter will require more detailed consideration than we have been able to give to it, and we recommend that it be further examined.

Functions and capacities of the Bank.

163. The functions and capacities of the Reserve Bank shall be as defined in Schedule II.

Regulations.

164. A provision should also be inserted in the charter giving the Governor-General power to make, from time to time, regulations, not inconsistent with the charter, prescribing all matters which are required or permitted to be prescribed, or which are necessary or convenient to be prescribed, for giving effect to the provisions of the charter.

Time Table.

165. The above proposals cannot, of course, all be brought into operation at once. The existing agreement with the Imperial Bank of India, for instance, is not due to expire until the 27th January, 1931, and the contract with the Bank of England for the supply of Government notes is not due to expire until the 30th June, 1929. The earlier termination of either agreement could no doubt be negotiated. On the assumption that the necessary arrangements are made, we recommend the following time table for the chief changes :—

The transfer of assets referred to in paragraph 144 should be made as soon as the Reserve Bank notifies that it is in a position to issue its own notes, but not later than 1st January, 1929.

The obligation to buy and sell gold should come into operation on a date to be approved by the Governor-General in Council on the proposal of the Bank, but not later than the 1st January, 1931.

Transitory Provisions.

166. During the transition period the currency authority* must be under an obligation to buy gold and to sell gold or gold exchange at its option at the gold points of the accepted gold parity of the rupee. It should take whatever steps are required to convert in the safest and most gradual

* By currency authority is meant the Government of India or the Reserve Bank of India, whichever is in control of the note issue.

manner a portion of the sterling balances into gold bullion, and should pursue a policy calculated to strengthen the position of the Bank in relation to gold when it assumes charge of the currency and the Reserve.

We desire expressly to emphasise that this recommendation as to the transition period is of the essence of our proposals. The Government of India should at once publicly announce its acceptance of the obligation as defined, and should fulfil it without variation during the period of transition. We are of opinion that this obligation should be embodied in statutory form. In Schedule V we suggest an outline form for such statute.

Interdependence of Recommendations.

167. In conclusion, we desire to emphasise that our recommendations in the preceding sections of this Report should be regarded as a comprehensive whole and that modifications of any of their integral parts involve the danger of destroying their balance and so preventing the efficient and smooth working of the whole.

IV.—STABILISATION OF THE RUPEE.

Time for Stabilisation.

168. The system of currency which we have recommended implies the adoption of some fixed gold parity for the rupee, and the stabilisation of the rupee at that parity. It is therefore essential to our inquiry to consider whether the time is ripe for such a stabilisation of the rupee, and, if so, at what rate that stabilisation should be effected.

169. The great preponderance of opinion in the evidence which we have received is that it is desirable that the gold parity of the rupee should be fixed and that the rupee should be stabilised at that parity forthwith. It is held that the rupee should not be left to discretionary variations, with a view to the mitigation of internal price movements or for any other purpose; and it is argued that, in view of the circumstances of the times, including the return to a gold basis of the United Kingdom, the Dominions, and other countries, the time is now fully ripe for such stabilisation. Each addition to the list of countries which have stabilised their currency in relation to gold improves the prospects for the stability of gold prices.

170. In this opinion we concur. So long as no such parity is fixed, there must be uncertainty as to the future of exchange, and a consequent lack of confidence. Commercial initiative must be discouraged, and the machinery of commerce generally must be clogged and hampered. There are therefore the

strongest practical reasons for deciding upon the parity and stabilising thereat forthwith, if that can be done with safety.

171. After considering all foreseeable circumstances, we have come to the conclusion that it is safer to stabilise now than to wait. We do not overlook the fact that a certain element of instability remains in the economic conditions of the world as long as some important countries have not attained budgetary equilibrium or a stable currency. To fear, however, that even the worst disturbances that could proceed from these sources could seriously imperil the stability of Indian exchange would appear to us to imply an exaggerated caution. A stable exchange is an inestimable boon, and it should not be sacrificed or postponed for the sake of a security that is so absolute as to be unobtainable in the practical world.

172. An apprehension was expressed to us lest some considerable change in the credit policy of the United States of America, at present the chief holder of the world's monetary stock of gold, might produce a rise in world gold prices, in which India, if definitely linked to a gold standard, would be inevitably involved. As already stated on the authority of the evidence from the United States, we have satisfied ourselves that there is no such redundancy of gold in the United States as would be likely to promote such a policy. Moreover, the number of countries which have returned or are returning to the gold standard is some guarantee that, with proper co-operation and management on the part of the various central banks of the world, a more even distribution of the available gold will be attained in time, so that world price levels will be less dependent upon the policy and actions of a single currency authority than they are supposed to be at present.

173. In short, there is not in our opinion any event in the foreseeable future which would be likely to make conditions more favourable for the purpose of stabilisation than they are at present, and the outcome of which ought therefore to be awaited: and we are, in consequence, of opinion that stabilisation should be effected forthwith.

The Ratio of Stabilisation.

174. The legislation of 1920 has fixed the statutory value of the rupee at 2s.; but that rate is absolutely ineffective, and the Government have declared that they do not seek to regain it. The present market rate is about 1s. 6d. It has been at that level in relation to gold since June 1925, and in relation to sterling since October 1924.

175. For the reasons set forth below we recommend that the rupee be stabilised in relation to gold at a rate corresponding to an exchange rate of 1s. 6d. for the rupee.*

Adjustment of Indian to world prices.

176. The chief reason for this recommendation is our conviction, which has been formed and cumulatively reinforced during the progress of our inquiry, that, at the present exchange rate of about 1s. 6d., prices in India have already attained a substantial measure of adjustment with those in the world at large, and, as a corollary, that any change in the rate would mean a difficult period of readjustment, involving widespread economic disturbance, which it is most desirable in the interests of the people to avoid, and which would in the end be followed by no countervailing advantage.

177. We shall proceed to discuss a number of relevant issues, which have been raised in this connection, and we shall examine the question from various angles; but we wish to make it clear at the outset that the central, and as it seems to us the decisive, factor is the extent to which the prevailing rate of exchange is reflected in internal prices. We are unanimous in holding the view—and, indeed, it is a proposition which it would be difficult to controvert—that, if it can be shown that prices have to a preponderant degree adjusted themselves to the existing *de facto* rate, then that rate must be adhered to. The further proposition, that such substantial adjustment has been secured, is a question of fact, as to which we shall now adduce the evidence on which our conviction is based.

178. It would be difficult, if not impossible, to pursue any argument on the subject of the movement of price levels, without making use of index figures in some form. We recognise that index figures are not an infallible guide, and that there are many directions in which they might lead one astray. Especial caution is necessary in using them for the purpose of comparing the range of price levels in two or more countries over a particular period, because the figures are necessarily compiled in different ways in different countries. Moreover, it is usual, for purposes of comparison, to refer them to the same basic year, and the year selected may not be equally suitable in all the cases concerned. For example, there may have been some local peculiarity in the circumstances of the basic year, or the character of production may have changed during the period in one or more of the countries. It may be said that

* Throughout this part, when such expressions as "the 1s. 6d. rate," "a 1s. 6d. rupee," are used, they must be read with reference to our recommendation that the rupee should be definitely linked to gold. The expressions in question are used merely as a convenient and familiar way of referring to the gold value of the rupee.

the index figures are more reliable in indicating the general trend of prices in each particular country than in comparing the relative levels of prices in two or more countries.

It might have been expected that the statistical employment of the doctrine of purchasing power parity would have facilitated the task of determining the proper exchange ratio to be fixed. But quite apart from the imperfections of the Indian figures of prices, the employment of index numbers for such a purpose implies the important assumption that changes in the prices of goods entering international trade have been followed by similar changes in the prices of all other goods. A caveat has to be entered against the application of the theory of purchasing power parity to general price level as determined by figures like index numbers of wholesale prices or index numbers of retail prices and cost of living. The theory can in fact supply a very approximate guidance only, and its practical utility is of a strictly limited character. Moreover, in comparing the pre-war and post-war price levels for the purposes of the theory, we have to allow for changes in tariffs and freights both at home and abroad and changes in the character of production, and these have been very important.

179. In India there are special difficulties in the way of compiling a representative index figure owing on the one hand to the great size of the country and the cost of inland transport, and on the other to defects in the statistics on which the compilation is based, defects which have been pointed out in the report of the recent Indian Economic Enquiry Committee.

180. We desire to take this opportunity of recommending that a serious and sustained attempt should be made to remedy these defects, and to lay the basis of sound economic deductions by the collection of accurate statistics, not only of prices, but also of wages, a subject which in India presents even greater difficulties.

181. Bearing the above reservations in mind we proceed to examine the data available. We draw no conclusions from the general index numbers for all India, because these are more deeply affected by the defects indicated above than are the local indices of wholesale prices compiled at Calcutta and Bombay. Of the latter the Government of India prefer the Calcutta figures. They are more comprehensive, covering 71 items against Bombay 42. We shall deal with them first, but in the graphs referred to later we have combined the two sets of figures into one.

182. From December, 1922, to June, 1924, the gold exchange value of the rupee (as measured by the cross-rate, Calcutta-London-New York) remained fairly stable round 1s. 3d. gold (the limits being about 1s. 2½d. and 1s. 3½d.). During the same period the rupee price level, as measured by the Cal-

cutta* wholesale index figure, remained fairly steady round 176 (the limits being 170 and 181). From July 1924 to January 1925 the rupee rose sharply to the neighbourhood of 1s. 6d. gold, and since the end of May 1925 it has been held within the 1s. 6d. gold points. From July 1924 to June 1925 the rupee price level fell from 179 to 157, and has since then† varied between the limits of 163 and 153.

183. Thus, treating the statistics in the most generalised way and disregarding minor movements, it is observable that :—

(i) During eighteen months, while the rupee was worth about 1s. 3d. gold, the rupee price level ranged round a mean of about 176.

(ii) In the succeeding year, while the rupee was rising to 1s. 6d. gold, the rupee price level fell below 160.

(iii) Since then, while the rupee has remained, or been held, at about 1s. 6d. gold, the rupee price level has ranged round a mean of about 158, with a recent tendency to fall in sympathy with world prices.

The level of world gold prices, as indicated by the wholesale price index figures of the United States and the United Kingdom, was (in spite of intermediate fluctuations) approximately the same at the beginning of period (i) and at the end of period (iii).

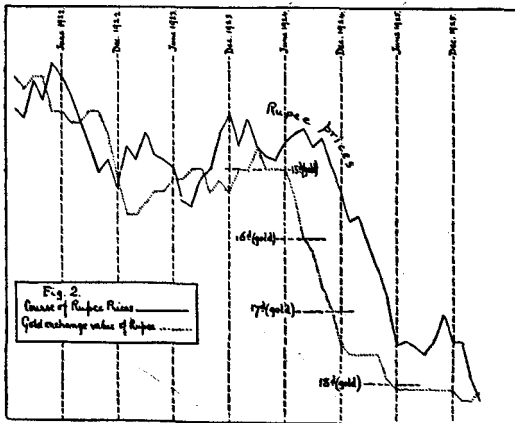
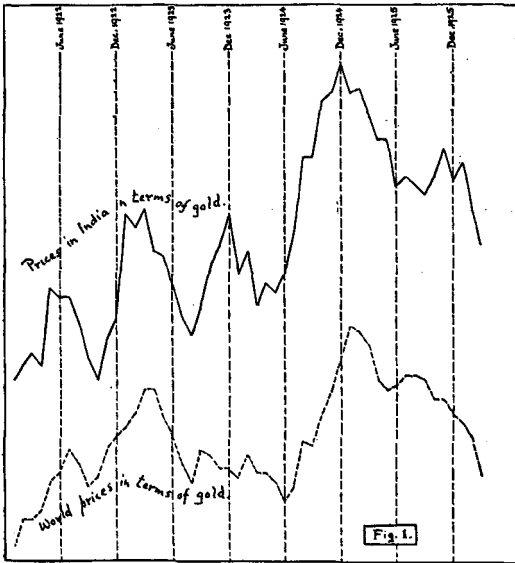
It is natural to conclude that, during the period of change, there was a mutual adjustment of prices and exchange, and that a substantial equilibrium was attained about the middle of 1925 and has been since maintained.

184. The nature and extent of the tendency towards adjustment may perhaps be more readily apprehended by means of a graphic representation. In the attached diagrams, in which an attempt has been made to exemplify general tendencies and minimise the effect of local variations, attention is directed to the comparative slopes and movements and not to the actual levels of the respective lines. The latter, as already pointed out, may be influenced by factors (e.g. the base year chosen for the compilation of index numbers) which are largely irrelevant for the present purpose, whereas the general trend of movement would remain the same whatever basis were chosen for the figures.

185. In Figure 1 are shown two lines representing respectively the course of prices in India converted into gold prices on the basis of the current market rates of exchange, and the course of world prices in terms of gold. In the case of India the average between the Calcutta and Bombay figures of wholesale

* The trend of the Bombay index figure is similar.

† The statistics quoted in this and the following paragraphs are carried down to March 1926, the latest month in respect of which complete data are, at the time of writing, available.



In figure 2, to facilitate comparison between the slopes of the two curves, the graph of the exchange value is inverted; i.e., an upward slope represents a fall in exchange, and a downward slope a rise in exchange.

prices has been used, while the figure for world prices has been obtained by averaging the wholesale index numbers of the United States (Bureau of Labour) and the United Kingdom (Board of Trade) after correcting the latter for any variation of sterling from gold parity. In Figure 2 is shown the course of Indian prices in terms of rupees, i.e., actual prices in Calcutta and Bombay; together with this is plotted, for purposes of easy reference, the course of the gold exchange value of the rupee.

186. It will be seen that in 1923 and the first half of 1924, when the exchange was fairly steady at about 1s. 3d. gold, movements of world prices and of Indian rupee prices roughly corresponded, but from October 1924 to September 1925 there was a rapid and violent downward movement of the rupee price level which was not the reflection of any similar movement in world prices. The line representing Indian prices *in terms of gold*, however, continued to follow approximately the same trend as world prices, thus indicating that the fall of rupee prices was due to the adjustment of these prices to a new level of exchange.

187. An inspection of the diagrams suggests some interesting inferences as to the nature, pace and extent of the inter-adjustments between prices and exchange during the period (from the middle of 1924 to the middle of 1925) when the rupee was rising from 15d. gold to 18d. gold. Although it was not until the end of that period that 18d. gold was definitely attained, it has to be remembered that the greater part of the rise took place in the first half of the period, i.e., during the last six months of 1924. During that half-year the rupee rose approximately from 15d. gold to 17.6d. gold. World prices rose sharply from July 1924 to February 1925 and then receded gradually; by June 1925 they had come back to the level at which they stood in November 1924. Rupee prices remained nearly stationary from July to October 1924, and then, as pointed out above, a rapid fall set in. The only reasonable explanation of these divergencies between the course of rupee prices and that of world prices is the concurrent rise in exchange. The effect on rupee prices of this rise in exchange was not fully apparent at the outset, owing no doubt to the usual lag in such adjustments; it was sufficient immediately to check the rise in rupee prices, but it took a few months to overcome the inertia of those prices and produce a decided fall. When once the fall had set in it continued with practically equal rapidity throughout the first six months of 1925, although, as already observed, exchange at this period was rising at a much less rapid rate; in fact it only rose during these six months from 17.6d. gold to 18d. gold. The lag due to economic friction was then exerting its influence in the opposite direction, that is, it was tending to keep prices falling at the same pace although the impetus which started the fall had lost

much of its force. The conclusion seems almost irresistible that the marked fall in rupee prices in the first half of 1925 represented largely the tendency of those prices to adjust themselves to the rise in exchange, the greater part of which had occurred in the preceding half-year. This conclusion is strikingly illustrated by the parallel course of the lines in Figure 2 and is borne out by the course of prices in recent months, when with a steady exchange both rupee and world prices have been falling, practically in unison. The final curves in the diagrams suggest that the adjustment of internal prices in India to the 1s. 6d. rate of exchange is practically complete and that the trend of rupee prices has again begun to correspond with that of world gold prices.

188. This analysis appears to provide a conclusive answer to the main contention of those who doubt whether any substantial adjustment has yet taken place. That contention may be broadly stated as follows: "It was not till June 1925, that the rupee attained 18d. gold. Since that date rupee prices have been practically stable in relation to world prices. Therefore adjustment has not taken place and is still to come." The answer is that although the rupee did not definitely reach 18d. gold till June 1925, it had between July 1924 and January 1925 already traversed more than 80 per cent. of its upward journey from 15d. to 18d. gold; and that before June 1925 there had already taken place a heavy fall in rupee prices in relation to world prices, which may be regarded as the complement of the steep rise in exchange.

189. A further indication of equilibrium between internal and external prices during the last twelve months is to be found in the steadiness of exchange. Exchange is the mechanism by which differences in these two price levels are adjusted, and by which they are, as it were, kept in gear. When exchange remains steady over a fairly long period it may ordinarily be inferred that there are no differences to be adjusted. It has been urged against this view that exchange has only been kept at 1s. 6d. by Government manipulation, but in fact the so-called manipulation has been confined to an addition of 9 crores to the note circulation during the recent busy season and a withdrawal of 8 crores at the end of it. Such an amount of expansion and contraction is by no means excessive and is contemplated in the Indian Paper Currency Act as a normal seasonal variation. The fact that advantage has not been taken of the offer made by the Government in April last to sell sterling at 1s. 5½d. goes to show that the present volume of currency is adjusted to the 1s. 6d. ratio.

190. It is relevant also to consider the course of India's foreign trade, which would naturally be affected by any disequilibrium between internal and external prices. If the rupee

were either under-valued or over-valued internally in comparison with the external value, either exports or imports would be subjected to a handicap which we should expect to see reflected in adverse conditions in the general trade of the country. As a matter of fact, while there are individual trades which are passing through a period of adversity, the general trade of the country, taken as a whole, shows no signs of the imposition of such a handicap.

191. All the above considerations point to the same conclusion, viz., that after twelve months of the *1s. 6d.* rate of exchange, substantial adjustment of prices has been attained; and this conclusion is borne out by the experience of other countries which have recently stabilised their exchanges.

Wages.

192. We turn now to the question whether wages in India are in adjustment with the present level of prices and exchange. The material available is even less extensive and reliable than that relating to prices. But it may be inferred on general grounds that considerable progress has already been made in the process of adjustment. Prices are bound to react on wages sooner or later all the world over, and, although the effect may take longer to manifest itself in India than in countries where industry is more highly organised, the economic tendency none the less exerts its force in the same direction. In India a much larger percentage of wages is spent on foodstuffs than in western countries, and therefore there is a very necessary ultimate adjustment of wages to the price of food grains. This has been obscured for the time by the abrupt and belated rise of wages which the last decade has seen—a rise which was to some extent accelerated by factors not purely economic.

Where exchange and prices have been steady over a considerable period, we should feel justified in assuming that wages were in adjustment unless there were any clear indications to the contrary. The statistics of foreign trade afford no such contrary indication, but rather strengthen the assumption. Agriculture, which is pre-eminently India's greatest industry, has suffered from the world-wide effect of the war, which has been to leave the prices of agricultural produce at a lower level in relation to manufactured articles. This effect is illustrated by the marked difference between the average rise since 1914 in the prices of the articles that India exports, which are mostly agricultural, and the rise in the prices of imported articles, which are mostly manufactured. The rise has been considerably greater in the latter case than in the former, and this undoubtedly constitutes an economic loss to India. But it is a loss which she shares with all other agricultural countries and which cannot be made good by any

monetary policy. In spite of this disadvantage such figures as are available (e.g., the index numbers of agricultural wages in rural areas compiled by the Labour Office, Bombay) indicate a general tendency to improvement in the wages of the labourer, and this tendency may be expected to facilitate adjustment to falling prices, which indeed operate as a check to the rising tide of wages. A similar phenomenon has been observed in the case of Government services, where the increase in the value of the rupee to 1s. 6d. has enabled Government to refuse increases of pay which it might otherwise have been difficult to resist.

193. On the whole we see no reason to believe that there is any general maladjustment in agricultural wages. Neither have we been able to discover any such condition in the wages paid by manufacturing industries generally. The Jute mill industry of Bengal granted temporary increases of pay to its employes in the years when prices were abnormally high, but as a result of the adjustments which have taken place the wages now paid in that industry are in line with to-day's price levels and cost of living. We found certain other important industries in a state of depression, notably the steel and cotton mill industries. The steel industry is suffering, not so much from high wages, as from the stress of foreign competition, stimulated in some countries, e.g. Belgium, by depreciating exchanges. With regard to steel and other industries, it appears to us that relief, if relief is really required, cannot properly be obtained by manipulation of the currency. The cotton mill industry of the Bombay Presidency has furnished us with detailed figures illustrating its difficulties. The chairman of the Bombay Millowners' Association told us that the present index figure of wages of mill-hands is 231 (as compared with 100 in 1914), and that attempts to reduce wages have been frustrated by strikes. This, too, in spite of the fact that the Bombay index numbers of wholesale prices, retail food prices, and cost of living are only 150, 150, and 153 respectively. These figures indicate that either the pre-war rate of wage was too low or the present rate is excessive. The reduction of the exchange rate to 1s. 4d., which the chairman of the Association and many other witnesses advocated, would at best provide a temporary alleviation only for so serious a maladjustment. The ultimate effect would merely be, by inflating the currency to the extent of 12½ per cent., to produce a concealed reduction in wages of an equivalent percentage. Even if this would secure the desired equilibrium, which seems highly improbable, we do not regard it as sound policy to use the currency as a lever to reduce real wages. Any adjustment of wages thus brought about would be arbitrary in extent as well as temporary in character. Inflation is a dangerous expedient, which has often been advocated, and sometimes deliberately applied, in

other countries for similar purposes, but it has always been found to carry nothing but evils in its train. The prosperity of an industry depends on the soundness of its internal economy and its adaptability to changing conditions; and any basic unsoundness in its economic conditions cannot be rectified by a mere change in the ratio of exchange.

Effect on contracts.

194. In addition to prices and wages it is relevant to consider how outstanding contracts will be affected by the rate at which it is proposed to stabilise exchange. It has been represented to us that land revenue and other long term contracts were settled when exchange was at *1s. 4d.* It is true that many of the current land revenue settlements were made during that period because generally speaking the normal term of these settlements is 30 years; but in view of the great rise in prices since 1914 the real incidence of land revenue, measured in terms of commodities, has been very materially lightened, and we cannot regard a *1s. 6d.* rate as constituting a hardship in this respect.

195. With regard to other long term contracts, it must be remembered that the Indian exchange has been in a more or less unstable condition for the last 8 or 9 years. If regard is had to the gold exchange value of the rupee (computed, during the period of sterling depreciation, by a combination of the rupee-sterling and dollar-sterling exchanges) it will be seen that the rate broke away from *1s. 4d.* gold in an upward direction in 1917 and continued to rise until February 1920, when it touched *2s* gold. It then fell away very rapidly to *11½d.* gold in August 1921, and from that time rose until, in June 1925, it reached *1s. 6d.* gold. It has since remained at about that figure. During the whole of this period of *8½* years the rate has been at or about *1s. 4d.* for short periods only, and has certainly never remained long enough at that figure for conditions to have been able to be readjusted on the basis of the old rate. It cannot be contended that contracts and arrangements concluded prior to 1918, and still existent, bulk more largely in the economic life of the country than those concluded during the subsequent *8½* years, during which period the exchange has been in a state of flux.

196. After the prolonged disturbances which have taken place, it is impossible to do absolute justice to the long-term debtor and creditor by fixing on any particular rate of exchange. In any case these long-term debts form only a small part of the total contracts outstanding. The great bulk of the contractual obligations incurred under modern conditions consists of short-term contracts, and so far as these short-term contracts are concerned, it is reasonable to suppose that they originated, for the most part, when conditions were based on the *1s. 6d.* rate, or in any event after exchange had broken away from *1s. 4d.*

We conclude therefore that from the point of view of contracts, as well as from that of prices and wages, the least disturbance will be caused, and the least injury will be done to all the interests concerned, by adhering to the *de facto* rate.

Arguments for reversion to 1s. 4d.

197. The only other rate which has been seriously advocated by many of our witnesses is 1s. 4d. This has been described to us as the "natural" rate for the rupee, but we have not been able to ascertain exactly what is meant by that term. Fluctuations in exchange are produced by the mutual interaction of internal and external prices, and as the level of internal prices is determined mainly by the volume of internal currency, the only rate which can properly be regarded as natural is the figure at which these prices are in adjustment with the existing volume of currency and are also in equilibrium with external prices. From this point of view 1s. 6d. appears to be clearly the "natural" rate under present conditions. The term, however, appears to be loosely used to denote the rate which would result if no attempt were made either by statutory enactment or executive action to anchor the rupee at a particular point. If such a policy were adopted, there can be no doubt that in a country like India where there are wide seasonal fluctuations of trade there would be similarly extensive fluctuations in the rate of exchange amidst which it would be impossible to distinguish any particular rate as "natural."

198. In this connection we have received criticisms of the action of Government in intervening in April 1926 to prevent a fall of exchange below 1s. 5½d., though no exception has been taken to the earlier action of the Government, in October 1925 in intervening to prevent a rise in exchange above 1s. 6¾d. As a matter of fact if either of these tendencies was a natural one (i.e., the genuine reflection of trade conditions) it was the earlier tendency to rise above the 1s. 6d. upper gold point. That is evidenced by the fact that the rate was only kept down by large purchases of sterling and the accompanying expansion of the currency, whereas on the later occasion it has been authoritatively stated that the falling tendency was due not to any genuine trade factors but largely to speculation on the possibility of a lower rate than 1s. 6d. being recommended in our report. This statement is to some extent confirmed by the fact that the mere offer of reverse remittance at the 1s. 6d. lower gold point, coupled with a contraction of the currency by an amount nearly equivalent to that which was let out at the beginning of the busy season, was sufficient to check the fall, and no reverse councils were actually applied for.

199. One of the arguments frequently urged against the retention of the 1s. 6d. rate may be analysed as follows. Granted

that the *de facto* rate has been in operation for a considerable time and that prices and other conditions may have become adjusted to it, nevertheless it is urged that the rate came into being through Government manipulation of the currency, and it is suggested that a rate so established can be disturbed with less harmful results than would follow from the disturbance of a rate which has been produced by the interplay of purely commercial forces. This argument has only to be thus clearly stated to be seen to be fallacious. If it were true that the Government of India, as currency authority, were in error in pursuing a policy which resulted in the holding of the rupee at 1s. 6d., it would be justifiable to criticise such error, but it would still remain true that, in choosing a rate for the final stabilisation of the rupee, it is the facts of the present that must be faced. When prices and other conditions are in adjustment with those in the world at large on the basis of an existent exchange rate, the question of the means by which that rate came into existence has no bearing on the extent or violence of the economic disturbances which would result from an alteration in the rate.

200. It has been suggested in favour of the 1s. 4d. rate that it would reduce the total demand for gold in connection with the introduction of a gold standard; and, further, that we have to envisage the possibility of a failure of the monsoon requiring the utilisation of the gold and sterling reserves of Government to support exchange, and that the rate of 1s. 4d. would be easier to maintain than 1s. 6d. The first contention overlooks the fact that a reduction in the gold value of the monetary unit by 12½ per cent. involves of necessity an increase of the circulation by a similar percentage. The amount of gold in reserve required to support the circulation would therefore be the same in either case. As regards the second suggestion, provided that the gold and gold securities reserves are sufficient to prevent their exhaustion before the necessary contraction of the rupee circulation has been brought about, we see no ground for thinking that, with the establishment of a central currency and banking authority, with full power to make its credit policy effective, it will be more difficult to maintain exchange at 1s. 6d. than at 1s. 4d. The proviso is satisfied by the constitution of reserves recommended elsewhere.

201. When once exchange has been stabilised and prices and other conditions are fully adjusted to the rate chosen, it is of course true that the testing time for the mechanism that maintains the exchange will come if and when there is a succession of bad monsoons. But that testing time will come equally whether the rate of stabilisation be 1s. 6d. or 1s. 4d. or any other rate; and the ability to meet it will depend, not on the

figure at which exchange is fixed, but, as indicated above, on the maintenance, and proper utilisation, of adequate gold reserves.

202. It has been suggested that competition from foreign countries with depreciated or depreciating currencies, such as France and Belgium, could be met by lowering the Indian exchange to 1s. 4d. When once these currencies have been stabilised, the adoption by India of a ratio of 1s. 4d. rather than 1s. 6d. would not leave her in any better position to meet such competition. During the transition period, when the foreign currencies are unstable, the remedy, if any, must rather be sought elsewhere than in the manipulation of her currency policy. If it should happen that any of the other countries concerned avoid stabilisation, and allow their currencies to depreciate continuously, it will scarcely be suggested that India should enter on a course of competitive inflation in order to keep pace with them.

203. The rate of 1s. 4d. has also been supported on the ground that the recent abnormal absorption of gold by India has been due to the cheapness of gold brought about by the rise in exchange, and that there will be a wholesome check to this absorption if the rupee price of gold is raised by lowering the gold value of the monetary unit. It was stated in evidence before us, by a leading bullion broker, that whatever the rate of exchange, India must buy, has bought, and will continue to buy gold; and that she can never be saturated with gold, and will only stop buying it when her production falls off through famine or other causes. It is true that gold has in recent times been relatively cheap compared with other commodities, but it is evident that, since a change in the gold value of the rupee must involve a corresponding change in the rupee prices of commodities, the mere lowering of the ratio of the rupee cannot result in more than a temporary alteration in the relative cheapness of gold and general commodities. The suggestion that India's appetite for gold can be cured by a lowering of the exchange is indeed based on an imperfect apprehension of her economic circumstances. The only sure way to eradicate this wasteful habit is to stabilise the currency, establish confidence in its stability, educate people in the habit of investment, and extend banking facilities.

204. Another argument advanced in support of a reversion to the pre-war rate is that there is likely to be a fall of world gold prices in the near future, and that the fixation of exchange at 1s. 6d. will accentuate the fall in India, and make it specially embarrassing, as was the rapid fall which took place in 1920, when the ill-fated attempt to stabilise Indian exchange at 2s. was made. The economic conditions of to-day are very different from those prevailing in 1920. The fall in prices that occurred

in that year was quite abnormal both in rapidity and in extent. It was an aftermath of a world-wide upheaval, a reaction from the enormous expansion of credit that took place during the war. It would be imprudent to base a currency policy on the supposition that such conditions are likely to recur, because a second upheaval of the kind would overwhelm almost all currency systems in a common ruin. If we aim at stability we must assume that the period of catastrophic disturbance is over and that future movements of prices will proceed on more normal lines. If the world's gold production in the future should fail to keep pace with the demand, a period of falling prices would probably set in, but, judging from past experience, the price movement due to such a cause would be slow and gradual, and should not prove a menace to the stability of the rupee. India might no doubt suffer, with the rest of the world, from a long period of trade depression, but that is a risk which she cannot escape if she adopts, and adheres to, a gold standard. Moreover, it is a risk to which she will be equally subject whether she stabilises her exchange at 1s. 6d. or at 1s. 4d.

205. Broadly speaking, the arguments which have been brought forward to prove that a reversion to 1s. 4d. would be beneficial, merely show that, during a period of adjustment of conditions to that rate, certain sections of the community (*e.g.*, debtors, exporters, and employers of labour) would be benefited at the expense of certain other sections (*e.g.* creditors, importers, and wage-earners); they do not show that there would be any substantial permanent benefit even to any section at the expense of another, still less to the country as a whole.

Economic effects of a reversion to 1s. 4d.

206. On the other hand, the change would produce a profound disturbance in economic conditions throughout India. Even if our view that prices and wages have been substantially adjusted to the 1s. 6d. rate is challenged, it cannot be seriously contended that they are in any way adjusted to a rate of 1s. 4d. As we have already pointed out, it is more than 8 years since that rate was in stable operation, and, in view of the wide fluctuations that took place between 1917 and 1925, it seems clear that the only rate to which there can be any degree of adjustment is 1s. 6d. In so far as this adjustment has taken place—and we have given our reasons for believing that it is practically complete—a reduction of the rate of exchange to 1s. 4d. would produce a general rise of prices of 12½ per cent., a change which would be severely felt by consumers generally and especially by the poorer paid members of the literate classes. The adoption of a 1s. 4d. rate would result in an arbitrary reduction of the real wages of labour; and for the infliction of such a hardship we can see no justifica-

tion in equity or in expediency, in the interests of the classes directly affected, or of the community as a whole.

The effect of the change on foreign trade would be immediate and for a time convulsive. No one acquainted with the practical working of the exchange market can suppose that, once a policy of reversion to a lower rate had been announced, there would result merely a gradual and steady decline to that rate. There is always a considerable amount of latent demand for remittance to England, and, if the decision to adopt a lower rate were announced, remitters would at once endeavour to obtain the best price for rupees which they could get until the rate announced were reached. The tide would then turn the other way and there would be a very large demand for rupees at the new rate. This would have to be met by an offer to buy exchange without limit at the gold import point, thereby making additions to currency. This might possibly lead to a series of violent fluctuations before exchange settled down at the new lower rate. Whether such fluctuations took place or not, the sudden fall in exchange might easily create a boom which would be followed later by a slump.

Effect on public finances.

207. Some evidence has been put before us as to the effect which would be produced on the Government finances by a reversion to 1s. 4d. We do not regard this as a decisive factor; but we cannot ignore the fact that a reversion to 1s. 4d. would inevitably lead to increases in both Central and Provincial taxation and would probably also result in a postponement of further remissions of the Provincial contributions to Central revenues, and a setback to the development of nation-building projects in the Provinces.

208. As to the finances of the Government of India, the Budget is now based on an exchange rate of 1s. 6d. to the rupee. If exchange were lowered to 1s. 4d. it would no doubt be possible ultimately to make adjustments (including the grading-up of taxation in accordance with the decreased value of the rupee) which would enable the Government to meet its liabilities without any increase in the real burden of taxation. Nevertheless, the immediate effect on the Budget would be considerable. The financial authorities in India have estimated that, on the basis of the 1925-26 Budget, the net sterling expenditure of the Government of India would be at once increased by about three crores per annum. There would be a similar immediate increase in the railway expenditure. Although railway finances have been separated from general finances, the effect of a lowering of the exchange rate would be to require either an increase in rates and fares or a revision of the terms of the Railway Contribution; so that the whole or part of

this further increase might well become a charge on the general budget. There would be some extra expenditure on stores purchased in India, and some readjustment might have to be made in salaries of Government servants who would be affected by the increased cost of living. Some portion of the increased expenditure would no doubt be met from the increase in Customs revenue from such articles as are assessed on an *ad valorem* basis. This on a rough calculation, making some allowance for decrease in the volume of imports, would not exceed 2 crores. No estimate can be framed of any increased yield which might eventually be had from Taxes on Income. What is clear is that the immediate loss from the standpoint of public finance would be considerable and would require to be made up by increases in taxation, if the Budget were to be balanced, and by still further increases, if further reductions in the Provincial contributions or in existing forms of taxation were to be made.

209. A significant circumstance is the recent successful issue by the Government of India of a long term loan of Rs. 25 crores at 4 per cent. at a price of Rs. 88 per cent. That it is possible for India to borrow at a rate which compares favourably with the rate at which the most advanced countries can borrow at present is a matter of congratulation, and shows how high the financial credit of India stands. This improved position is based on the balancing of the Indian budget. A reversion to the 1s. 4d. ratio, by the very adverse effect which it would have on the budgetary equilibrium, would necessarily impair the credit of India as regards borrowing.

210. The effect on Provincial finances of lowering the rate to 1s. 4d. has been well described as follows by the Government of Madras :—

“ Any policy adopted as a result of the recommendations of the Royal Commission may vitally affect the Government of Madras as a Local Government. The alteration in the level of prices which resulted from the war subjected their finances to a strain from which they have not yet fully recovered. The necessity for a revision of salaries was becoming evident even before the outbreak of the war, and during its course cases in which relief was most urgently called for were met by a series of expedients which were purely temporary in character. On the conclusion of the war a comprehensive measure of revision had to be undertaken, and the burdens thus imposed on the revenues of the Presidency were so great as to neutralise any benefit it received from the financial settlement in connection with the Reforms. The full liabilities which this revision of salaries imposed have not even now been liquidated, and only the fact that the considerable measure of stability in prices which has prevailed of late has rendered any further general measure of revision unnecessary has enabled the Madras Government to

meet the annual increase in its establishment and pension charges. If, as a result of changes in currency policy, a further rise in prices were to render a revision of salaries again necessary, the revenues of the Local Government would become inadequate to the strain, and the levying of additional taxation for improving the salaries of Government servants at the cost of the taxpayer, who would himself be affected by the rise in prices, would cause widespread discontent. This would be accompanied by a new period of readjustment of agricultural and industrial wages with all the dangers and unsettlement which that involves. The Madras Government trust, therefore, that theoretical arguments will not be allowed to obscure a practical issue to which they attach great importance."

Miscellaneous considerations.

211. We have referred in an earlier part of our Report to the difficulty of keeping the silver rupee in circulation if the price of silver were to rise above the melting point of the coin. With the rupee at 1s. 4d. the melting point would be reached if the price rose to approximately 43d. per standard ounce in London : with a 1s. 6d. rate the melting point would be at about 48d. per ounce. From the evidence that we have received as to the present state and future prospects of the silver market, it seems improbable that either of these levels will be reached for many years ; but, as we have observed in paragraph 46, the future of the market is shrouded in obscurity, and in framing our proposals for reform of the currency system, we have deemed it prudent to envisage the possibility of a material rise in the price of silver at some future time. If such a rise should take place, it is obvious that a 1s. 6d. rate of exchange will provide a wider margin of safety than 1s. 4d., and though an insurance of this kind will not, in view of our recommendation as to the status of the note, be any longer a decisive consideration, it constitutes an advantage on the side of the 1s. 6d. rate.

212. There is one minor respect in which an advantage is claimed for the 1s. 4d. rate. At that rate of exchange the sovereign is equivalent to precisely 15 rupees, whereas at 1s. 6d. the value of the sovereign in Indian currency is Rs. 13 as. 5 ps. 4, a sum which would be very inconvenient if the sovereign were to circulate as money. This objection, however, will lose much of its force if the legal tender character of the sovereign is removed, and it will hold good only in regard to accounting, where the 1s. 6d. rate will involve a recurring decimal in the conversion of pounds into rupees. Even this objection is not as strong as it appears at first sight, because a crore of rupees will be exactly three-quarters of a million pounds. We have been told by Government witnesses that for their accounting purposes 1s. 6d. is not at all inconvenient. The

same is true in respect of commercial transactions. On the whole, therefore, the balance of convenience from the point of view of accounts seems to be about equal.

Conclusion.

213. The combined weight of all the above arguments leaves no doubt in our minds as to the right course. It brings us to the conclusion, as already indicated, that the rupee should be stabilised in relation to gold at the existing rate of 1s. 6d. The opportunity for reversion to the historic rate of 1s. 4d., if it ever existed, is gone; and the best interests of India as a whole now require that stability should be achieved without producing those disturbances which would be the inevitable consequence of adopting any rate but that which is current.

V.—MISCELLANEOUS RECOMMENDATIONS.

Means to promote banking development.

214. Reference has already been made to the importance of developing banking and investment facilities, and of finding means to encourage the people of India to divert their savings to profitable channels of investment. It does not fall within our terms of reference to suggest in detail all the measures which may be taken to this end. But, since the smooth working of a system of currency cannot but be impeded by the existence of large stores of currency in hoards, it is proper for us to urge, and we do urge emphatically, that nothing should be left undone which will tend to facilitate and encourage banking progress in India.

215. We are impressed by the great and growing activities of the Imperial Bank in the direction of the extension of up-country banking. We note with interest the recommendations on the subject of extension of banking facilities which have been made by the External Capital Committee. We should welcome any steps which can be taken in the direction of making an extensive and scientific survey of banking conditions in India. In any scheme of banking reform that may be planned, we trust that due emphasis will be laid on the provision and extension of cheap facilities to the public, including banks and bankers, for internal remittance.

216. Of the other measures which are understood to be under consideration, one which appears to us likely to be particularly fruitful is the abolition of the present stamp duty on cheques. This charge is undoubtedly an obstacle in the way of the development of banking in the country. It probably tends to restrain many people from opening

current accounts and so making payment by cheque instead of cash. A similar duty was at one time in force in the United States of America. It was found to be an unsatisfactory restraint upon the use of cheques and upon economy in the use of currency, and was abandoned. The abolition of the duty in India would hold out some prospect of a ready and wide adoption in the bazaars of cheques as a means of payment. This would be an appreciable step forward in the development of banking, and might well prove an important factor in bringing about a profound and still more widespread change in the economic habits of the masses.

Improvement of statistical material.

217. We have already taken occasion to remark on the absence of reliable and scientifically constructed statistics of prices and wages, and to recommend that these should be improved. The possession and utilisation of a reliable and reasonably complete body of statistical *data* is an essential of a sound currency system, and this is especially the case in a country like India where conditions vary so greatly in different parts of the country. It would be regrettable if the Reserve Bank should, at its inception, be handicapped by the absence of such an important aid to its activities as would be furnished by a full body of statistics.

VI.—PROCEEDINGS OF THE COMMISSION.

218. We first assembled at Delhi on the 23rd November, 1925, and we took evidence there, at Bombay and at Calcutta. We held in India 50 meetings and orally examined 46 witnesses. Amongst these were the representatives of 9 Chambers of Commerce. We concluded our sittings in India on the 8th January, 1926, and reassembled in London on the 1st March, where we heard evidence until the 12th May. We held in London over 50 meetings and orally examined 17 witnesses.

219. We wish to record our high appreciation of the ready assistance and helpful co-operation which we have received from all witnesses in India and in England, many of whom attended at considerable inconvenience to themselves. To the eminent foreign experts who have assisted us we express our particular thanks. We were fortunate in being able to hear, in London, distinguished authorities from the United States, who came over expressly to assist us, and we have received written evidence from others. To them our special thanks are due.

220. The record of oral evidence, a number of written statements of evidence, and other relevant documents, are issued

separately. The number of written statements of evidence received was over 135. Considerations of convenience and economy have precluded the inclusion in the published volumes of the whole of this material.

VII.—SUMMARY OF RECOMMENDATIONS.

221.—(i) The ordinary medium of circulation should remain the currency note and the silver rupee, and the stability of the currency in terms of gold should be secured by making the currency directly convertible into gold, but gold should not circulate as money. (Paragraph 54.)

(ii) The necessity of unity of policy in the control of currency and credit for the achievement of monetary stability involves the establishment of a Central Banking system. (Paragraphs 83-85.)

(iii) The Central Banking functions should be entrusted to a new organisation, referred to as the Reserve Bank. (Paragraphs 89, 90.)

(iv) Detailed recommendations are made as to the constitution (paragraphs 91-102) and functions and capacities of the Bank. (Paragraphs 139-164.)

(v) The outlines of a proposed charter are recommended to give effect to the recommendations which concern the Reserve Bank. (Paragraphs 139-164.)

(vi) Subject to the payment of limited dividends and the building up of suitable reserve funds, the balance of the profits of the Reserve Bank should be paid over to the Government. (Paragraphs 99, 100.)

(vii) The Bank should be given the sole right of note issue for a period of (say) 25 years. Not later than five years from the date of the charter becoming operative, Government notes should cease to be legal tender except at Government Treasuries. (Paragraph 141.)

(viii) The notes of the Bank should be full legal tender, and should be guaranteed by Government. The form and material of the note should be subject to the approval of the Governor-General in Council. A suggestion is made as to the form of the note. (Paragraphs 138, 149, 155.)

(ix) An obligation should be imposed by statute on the Bank to buy and sell gold without limit at rates determined with reference to a fixed gold parity of the rupee but in quantities of not less than 400 fine ounces, no limitation being imposed as to the purpose for which the gold is required. (Paragraphs 59-61, 150, 151.)

(x) The conditions which are to govern the sale of gold by the Bank should be so framed as to free it in normal circumstances

from the task of supplying gold for non-monetary purposes, The method by which this may be secured is suggested. (Paragraphs 64, 150.)

(xi) The legal tender quality of the sovereign and the half-sovereign should be removed. (Paragraphs 65, 66.)

(xii) Government should offer "on tap" savings certificates redeemable in 3 or 5 years in legal tender money or gold at the option of the holder. (Paragraphs 67, 68.)

(xiii) The paper currency should cease to be convertible by law into silver coin. It should, however, be the duty of the Bank to maintain the free interchangeability of the different forms of legal tender currency, and of the Government to supply coin to the Bank on demand. (Paragraphs 69-71, 152.)

(xiv) One-rupee notes should be re-introduced and should be full legal tender. (Paragraph 72.)

(xv) Notes other than the one-rupee note should be legally convertible into legal tender money, i.e., into notes of smaller denominations or silver rupees at the option of the currency authority. (Paragraph 73.)

(xvi) No change should be made in the legal tender character of the silver rupee. (Paragraph 74.)

(xvii) The Paper Currency and Gold Standard Reserves should be amalgamated, and the proportions and composition of the combined Reserve should be fixed by statute (Paragraphs 75-77.)

(xviii) The proportional reserve system should be adopted. Gold and gold securities should form not less than 40 per cent. of the Reserve, subject to a possible temporary reduction, with the consent of Government, on payment of a tax. The currency authority should strive to work to a reserve ratio of 50 to 60 per cent. The gold holding should be raised to 20 per cent. of the Reserve as soon as possible and to 25 per cent. within 10 years. During this period no favourable opportunity of fortifying the gold holding in the Reserve should be allowed to escape. Of the gold holding at least one-half should be held in India. (Paragraphs 78, 79, 131, 132, 153.)

(xix) The silver holding in the Reserve should be very substantially reduced during a transitional period of 10 years. (Paragraphs 80, 133-136, 145.)

(xx) The balance of the Reserve should be held in self-liquidating trade bills and Government of India securities. The "created" securities should be replaced by marketable securities within ten years. (Paragraphs 81, 116, 136, 145.)

(xxi) A figure of Rs. 50 crores has been fixed as the liability in respect of the contractibility of the rupee circulation. Recommendations are made to secure that an amount equal to one-fifth

gold coin is demonetised in fact. In Great Britain, for instance, although there is gold coin of legal tender there is no means by which it can be obtained as of right. The only gold which can be obtained as of right is gold in bars, which are not currency. Thus gold coin cannot pass into circulation. This is an essential feature of the gold bullion standard to secure the automatic expansion and contraction of currency.

226. It is suggested in that part of the dissenting note which deals with a Central Bank for India that no serious curtailment of the Imperial Bank's commercial banking activities need be feared if it were entrusted with the functions of a Central Bank. It is the unanimous opinion of the Commission that if the sole right of note issue were to be entrusted to the Imperial Bank its charter would have to be amended to conform precisely to the conditions which we recommend. A perusal of these and in particular of the business the Bank may and may not do (see Schedule II) sufficiently demonstrates that the limitations put upon its business would prevent it from transacting the every day commercial banking business of the country or from entering into competition with the commercial banks in any general sense. We cannot therefore associate ourselves with the view that no serious curtailment of the Imperial Bank's commercial banking activities need be apprehended if it were limited to the business which can properly be transacted by a Central Bank. Such a limitation of its functions would, as we have said, deprive India of an indispensable component of its banking organisation and would leave a gap which could not be filled for many years by the growth of other indigenous institutions. Neither do we concur in the view that the establishment of an entirely new Central Bank will either lead to competition between it and the Imperial Bank or leave the Central Bank without sufficient scope for the employment of its funds. The charter which we recommend will obviate the first objection, while the experience of newly established Central Banks in other countries does not support the second objection.

227. As to that part of the note of dissent in which a reversion to a 1s. 4d. rate of exchange is advocated, there is no argument therein advanced which did not receive our most careful consideration before we arrived at our conclusions. The case appears to us to be fully dealt with in the relevant section of the Report. As to that portion of our colleague's argument which is based upon figures and statistics it will be understood that the accuracy and the completeness of the figures have not the authority of the Commission. We do not agree either with the discrimination which has been exercised in their choice, or with the inferences and deductions which have been based thereon.

The whole note contains many statements and inferences with which we have not thought it necessary or even relevant to deal, but which we in no way accept.

E. HILTON YOUNG (*Chairman*).
R. N. MOOKERJEE.
NORCOT WARREN.
R. A. MANT.
M. B. DADABHOY.
HENRY STRAKOSCH.
ALEX. R. MURRAY.
PURSHOTAMDAS THAKURDAS.*
J. C. COYAJEE.
W. E. PRESTON.

G. H. BAXTER
A. AYANGAR *Secretaries.*

Dated the 1st day of July, 1926.

* Subject to the Minute of Dissent attached hereto.

ANNEXE.

SUMMARY OF THE SCHEME FOR A GOLD CURRENCY REFERRED TO IN
PARAGRAPH 33 OF THE REPORT.

The scheme, which was placed before the Commission in evidence by the officials of the Finance Department of the Government of India, and which is set out in detail in Appendices 5 to 7 (Vol. II of Appendices), assumes the transfer of the management of the paper currency, and the conduct of the Government's remittance, to the Imperial Bank of India. The estimates and inferences are those of the authors of the scheme, and not of the Commission. Rupees are converted at 1s. 6d.

The eventual position would be:—

- (a) Gold coin and bank notes to be unlimited legal tender, and silver rupees up to Rs.50 only.
- (b) A statutory obligation on Government to give gold coin in exchange for gold bullion.
- (c) A statutory obligation on the Bank to buy gold.
- (d) Bank notes to be payable on demand in gold coin.
- (e) Constitution of the new Reserve to be:—
 - (i) Gold holding to be not less than 30 per cent., subject to reduction on payment of a tax.
 - (ii) Gold securities or sterling trade bills to be not less than 20 per cent.
 - (iii) Remaining investments to be Government of India securities (not more than 90 crores) and internal trade bills.
- (f) The Bank to undertake to keep the Secretary of State supplied with funds to meet the sterling charges of Government.

The rupee cannot be limited as legal tender until an opportunity has been given for holders of rupees to convert them into gold. The magnitude of this liability is indeterminate, but it is assumed that Rs.110 crores might be presented for conversion by the public. It would not be practicable to provide for the immediate conversion of such an amount; the following stages are accordingly suggested:—

- (i) A statutory obligation on Government to sell gold bullion (in 400 oz. bars) at par, and to buy gold bullion at par less seignorage.
- (ii) As soon as sufficient gold is available, a gold coin should be put into circulation, and offered as freely as resources permit, but without any definite obligation. (During these earlier stages it might be necessary to increase the supply of gold by external borrowing.)
- (iii) After, say, five years, the liability to give gold coin in exchange for notes or rupees, and also for gold bullion on payment of seignorage, should be imposed.
- (iv) After a further (say) five years the silver rupee should be made legal tender for sums up to a small fixed amount only (say, Rs.50).

During the transition period, it is assumed that the total of gold and gold securities in the Reserve may be allowed to fall as low as 30 per cent.

The Government would have for disposal some 200 crores of silver rupees (110 crores presented for conversion, plus about 90 already in the Reserve). This quantity represents about 637 million fine ozs. of silver, i.e., nearly three times the world's annual production. It would be necessary to spread the sales over a fairly long period. It is assumed, in

estimating the cost of the scheme, that they might be spread evenly over a period of ten years. The average price obtained may be expected to be not less than 24d. per standard ounce.

The amount of gold required (on the basis of a note issue of 189½ crores) for introducing the scheme in all its stages would be: Rs.27.2 crores additional for the Reserve, plus Rs.110 crores for the conversion of rupees; total, Rs.137.2 crores, or £103 millions.

It may be assumed that about £15 millions of gold would be required at the time of initiation of stage (i), a further £35 millions within a year, and the remaining £53 millions over a period of 10 years.

The cost of the scheme is estimated by its authors at about Rs.1½ crores per annum during the first five years and thereafter from two-thirds of a crore to 1.12 crore

SCHEDULE I.

(PARAGRAPH 64 OF REPORT).

NOTES ON THE METHOD OF COMPUTING THE BUYING AND SELLING RATES FOR GOLD.

1. The circumstances in which gold flows out of and into a Central Bank, for purely monetary reasons, in a country which has adopted the gold bullion standard are as follows:—

Gold will be withdrawn from the Central Bank only when the rate of exchange between the domestic currency and the currency of another gold standard country has reached a point at which it becomes profitable to individuals to ship it to the other country, sell it there to the currency authority at its statutory price and employ the proceeds for obtaining their domestic currency. On the other hand, gold will be sold to the Central Bank only when the rate of exchange between the domestic currency and the foreign currency has reached a point at which it becomes profitable to individuals to convert it into the foreign currency, to buy with it, from the foreign currency authority, gold at the statutory price, ship the gold to their own country, and there present it to the Central Bank for reconversion into the domestic currency. These conditions will be reached when the domestic currency varies from its par value by an amount equal to the cost of shipping it to or from the foreign gold centre.

2. This may conveniently be expressed as follows, using illustratively the particular case of rupees and sterling:—*

Let x denote the number of rupees† required to buy in Bombay a telegraphic transfer on London for the sterling equivalent of one tola of fine gold.

Let p denote, in rupees per tola of fine gold, the gold par value laid down for the rupee.

Let n denote in rupees the cost (including packing, freight, insurance, and loss of interest in transit) of shipping one tola of fine gold from London to Bombay.

*For the purpose of this generalised statement, the small difference between the Bank of England's buying and selling prices for gold may be ignored.

†i.e., the rate of exchange, here expressed in a somewhat unfamiliar manner in order to relate all the expressions to a given weight of fine gold.

Then gold will be withdrawn from the Central Bank, and shipped abroad, when

x is greater than $(p + n)$;

and gold will be imported, and sold to the Central Bank, when

x is less than $(p - n)$.

When x lies between $(p + n)$ and $(p - n)$, i.e., when the rate of exchange lies between the "gold points," it is not profitable for individuals, for purely monetary purposes, to withdraw gold from the Bank or to import and sell it to the Bank.

3. It cannot be assumed that, in the case of India, gold movements can be confined to those for purely monetary purposes; unless, therefore, the Central Bank is relieved of the necessity of supplying gold within the two gold points of the exchange, it would be exposed to a constant drain upon its gold reserves for purposes other than those for which they are held. The gold and gold security reserves of a Central Note-Issuing Bank serve the purpose of rectifying a temporary disequilibrium in the balance of foreign payments. They are held to enable external obligations to be discharged pending an adjustment being achieved (by an appropriate credit policy) of the value of the currency to its parity with gold. The reserves exist to assure the maintenance at parity with gold of the purchasing power of the monetary unit, i.e., to meet purely monetary needs. It is evident that, if they can be drawn upon in the ordinary course to satisfy non-monetary purposes to anything but a minor extent, the Bank's primary task, viz., to maintain the external value of the currency, will be jeopardised. To avoid having its gold reserves depleted in these circumstances, and to replenish them when a drain occurs, the Bank has at its command but one weapon, that is credit control. It would have to follow a more or less permanent policy of so restricting the monetary circulation by a contraction of credit as to cause the rupee to appreciate beyond the upper gold point of the exchange. That is the only way in which gold can be attracted from abroad to make good the loss of reserves due to an internal drain. It is obvious that such a state of things would have highly injurious reactions on the internal economy of India, and should consequently be avoided.

4. London is undoubtedly the most convenient gold centre for India. Not only is the currency of Great Britain freely convertible into gold at statutory prices and exportable in that form, but there is also an extensive bullion market. London is India's clearing house for her foreign commercial and financial transactions, and the available means of communication are such as to assure the movement of gold to and from India to be less subject to uncertainties than would be the case if any other of the great gold centres were chosen.

In what follows it has therefore been assumed that London will be treated as the gold centre in relation to which the appropriate buying and selling rates for India will be calculated.

5. It is required so to frame the Bank's obligation to sell gold as to make it unprofitable for gold to be bought from it except in circumstances in which it would be profitable to do so for purely monetary purposes.

6. Reverting to the symbols employed in paragraph 2 above, the rupee equivalent of the price of gold in the gold centre (London) is x rupees per tola. So that, when $x = p + n$ (i.e. the exchange is just within the gold points), the price of gold in London = $(p + n)$ rupees per tola. The cost of shipping being n rupees per tola, the cost of laying down in Bombay gold from London will then be $(p + 2n)$ rupees per tola. It follows, that the lowest rate at which the Central Bank can safely sell gold, when exchange is within the gold points, is $(p + 2n)$ rupees per tola, for delivery in Bombay, or $(p + n)$ rupees per tola, for delivery in London.

7. *Value of n.*—The following table gives the various elements that enter into the value of *n*, taking London as the foreign centre. (For purposes of comparison the corresponding figures for two other centres are also given.)

	From London ex Bank of England, or to London (Bank of England).	From South Africa ex Durban.	From New York ex Mint.
	Per cent.	Per cent.	Per cent.
	s. d.	s. d.	s. d.
Freight	16 0	12 6	10 0
Insurance	2 8	1 8	3 2.5
Packing, etc.	0 8	—	—
Mint charges	—	—	1 2.5
Bank charges	—	—	0 6
Total transport charges...	17 6	14 0	14 11
Interest at 5 per cent. for period of transit, 21 days between London or Durban and Bombay and 85 days between New York and Bombay.	5 9	5 9	9 7

The cost of transport, etc., expressed as a percentage of the cost of gold at the foreign centre, and taking London as the foreign centre, is thus 23s. 3d. per cent. = 1.1625 per cent.

8. *Buying rate for gold.*—

1 tola of fine gold = 180 grains of fine gold.

480 grains of fine gold = 1 oz. of fine gold.

1 oz. of fine gold = 84s. 11.45d. (price per fine oz. corresponding to Bank of England's selling price of 77s. 10.5d. per standard oz.).

1s. 6d. = 1 rupee (par of exchange).

∴ 1 tola of fine gold = $\frac{180 \times 84s. 11.45d.}{480 \times 1s. 6d.}$

= Rs. 21 3as. 10ps. (approx.) = Rs. 21.239583.

9. *Selling rates for gold.*—When the telegraphic transfer rate on London is at or above the upper gold point (see table below), the selling rate, for delivery Bombay, is the same as the buying rate, viz.: Rs. 21 3as. 10ps. per tola of fine gold.

When the telegraphic transfer rate on London is below the upper gold point, the selling rate,

(a) for delivery London, is:—

Rs. 21 3as. 10ps. + cost of transport, etc.

= Rs. 21 3as. 10ps. + 1.1625 per cent. of Rs. 21 3as. 10ps.

= Rs. 21 7as. 9ps. (approx.) = Rs. 21.484375.

(b) for delivery Bombay, is:—

Rs. 21 3as. 10ps. + twice cost of transport, etc.

= Rs. 21 3as. 10ps. + 2.325 per cent. of Rs. 21 3as. 10ps.

= Rs. 21 11as. 9ps. (approx.).

10. *The Gold Points.*—

Reserve Bank selling price (London).	} = { $\frac{21.484375 \times 480}{4.240909 \times 180}$ } = {	} = { 13.50929 rupees to £1 = 17.76555d. per rupee (say, 17½d.).
Bank of England buying price.*		
Reserve Bank buying price (Bombay).	} = { $\frac{21.239583 \times 480}{4.297221 \times 180}$ } = {	} = { 13.18035 rupees to £1 = 18.20893d. per rupee (say 18½d.).
Cost in Bombay of gold ex Bank of England.†		

* Price per fine ounce corresponding to Bank of England buying price of 77s. 9d. per standard ounce.

† Price per fine ounce corresponding to Bank of England selling price of 77s. 10½d. per standard ounce, plus a percentage to cover transport charges and interest during transit.

SCHEDULE II.

(PARAGRAPHS 102 AND 163 OF REPORT).

BUSINESS OF THE RESERVE BANK.

Business which the Bank should be authorised to carry on and to transact.

The several kinds of business which the Bank should be authorised to carry on and to transact are specified below:—

- (1) It may make and issue bank notes.
- (2) It may accept money on deposit on current account from and collect money for the Government of India, Provincial Governments, banks and bankers.
- (3)—(a) It may buy, sell, or rediscount bills of exchange, promissory notes, or other commercial paper, arising out of *bona fide* commercial or trade transactions, bearing two or more good signatures, one of which must be that of a bank or banker, and having a maturity not exceeding 90 days, payable in India.
 - (b) It may buy, sell, or rediscount, to an amount not exceeding 20 per cent. of the bank's total discounts, bills of exchange, promissory notes, or other commercial paper, bearing two or more good signatures one of which must be that of a bank or banker, drawn or issued in respect of current transactions for agricultural purposes, and having a maturity not exceeding six months.
 - (c) It may buy, sell, or rediscount bills of exchange and promissory notes, with a maturity not exceeding 90 days, bearing the endorsement of a bank, issued or drawn for the purpose of carrying or trading in Government of India securities.
 - (d) It may buy and sell securities of the Government of India, or of a Provincial Government or a local authority in India, having not more than six months to run, provided that the amount of such securities held does not, in the aggregate, exceed at any time an amount equal to 25 per cent. of the liabilities of the banking department in respect of deposits.
- (4) It may make loans or advances for fixed periods not exceeding 90 days against the security of:—
 - (a) Stocks, funds and securities (other than immoveable property) in which a trustee is authorised to invest trust money by any Act of Parliament or by any Act of the Governor-General in Council.
 - (b) Gold coin and bullion or the documents relating to the shipment or storage thereof.
 - (c) Such notes, drafts, bills of exchange and bankers' acceptances as are eligible for purchase or rediscount by the bank (but advances against securities specified in (3) (b) shall not exceed 20 per cent. of the total advances made by the bank).
 - (d) Such foreign drafts and acceptances as are eligible for purchase by the bank and are referred to in clause (6).
- (5) It may make advances to the Government of India for Ways and Means purposes, provided that the whole of the advances is repaid not later than at the end of the quarter following the close of the fiscal year in respect of which the advances were made.
- (6) It may buy from and sell to banks, bankers, and parties approved by the Central Board of the bank, in amounts of not less than the equivalent of Rs. 1 lakh, transfers by telegram or letter, sight drafts, trade acceptances, bankers' acceptances, and bills of exchange (including

treasury bills), drawn in or on places in such foreign countries as adhere to the gold or gold exchange standard, of a maturity not exceeding 90 days, and it may keep in such foreign countries credit balances with banks or bankers.

(7) (a).—It may invest a sum, not exceeding its paid-up capital and reserve, in securities, having not more than 5 years to run, of the Government of India, or other Governments, provided that the capital and interest of such latter securities are payable in gold or a currency which by statute is convertible into gold.

(b) It may invest its staff and superannuation funds in securities of the Government of India of any maturity.

(8) It may buy and sell all securities which are eligible as, and utilised for, the cover of the note issue, as defined in the clause dealing with the conditions governing the issue of notes by the bank.

(9) It may issue demand drafts and make, issue and circulate bank post bills made payable on its own branches.

(10) It may accept the custody and management of moneys, securities and other articles of value.

(11) It may sell and realise all property, whether moveable or immovable, which may in any way come into the possession of the bank in satisfaction, or part satisfaction, of any of its claims.

(12) It may act as agent for the Government of India and Provincial Governments in the transaction of the following kinds of business, viz:—

(a) The buying and selling of precious metals.

(b) The buying, selling, transferring and taking charge of any bills of exchange securities or any shares in any public company.

(c) The receiving of the proceeds, whether principal interest or dividends, of any securities or shares.

(d) The remittance of such proceeds, at the risk of the principal, by public or private bills of exchange payable either in India or elsewhere.

(13) It may buy and sell gold whether coined or uncoined.

(14) It may open accounts in foreign countries, and act as agent or correspondent of any bank carrying on business in or outside India.

(15) Generally, it may do all such matters and things as may be incidental or subsidiary to the transacting of the various kinds of business hereinbefore specified.

Business which the Bank should not be authorised to carry on or to transact.

The kinds of business which the Bank should not be authorised to carry on or to transact are the following:—

(1) It shall not engage in trade, or otherwise have a direct interest in any commercial, industrial, or other undertaking, save interests which may in any way come into the possession of the bank in satisfaction, or part satisfaction, of any of its claims, provided that these interests are disposed of at the earliest possible moment.

(2) It shall not purchase its own shares, or the shares of any other bank or corporation, or grant loans upon the security of the same.

(3) It shall not advance money on mortgage of fixed property, or on notarial or other bond, or cession thereof, or become the owner of fixed property except so far as is necessary for its own business premises.

(4) It shall not make unsecured loans or advances.

(5) It shall not draw or accept bills payable otherwise than on demand. ✓

(6) It shall not accept money on deposit for a fixed term, or allow interest on credit balances.

SCHEDULE III.
(PARAGRAPH 145 OF REPORT).

NOTE SHOWING THE EFFECT OF THE COMMISSION'S PROPOSALS ON THE
CONSTITUTION AND WORKING OF THE RESERVES.

(For purposes of this Note, gold and sterling have been converted
at 1s. 6d. per Rupee.)

1. The following is (in aggregate) the constitution of the present Paper Currency and Gold Standard Reserves as on the 30th April, 1926:—

<i>Liabilities.</i>	<i>Rs. crores.</i>	<i>Assets.</i>	<i>Rs. crores.</i>
Note issue	185	Silver	85
Rupee redemption	*	Rupee securities	57
		Sterling securities	81
		Gold	30
			253

2. Under the scheme outlined in the Report the following changes are contemplated:—

(1) *Liabilities.*—Initial liabilities will include Rs. 50 crores† in respect of the rupee circulation (inclusive of the rupees retained in Reserve). Future liabilities will be increased by the full amount of further note issues. (Paragraph 146 of Report).

(2) *Assets.*—(a) Gold and gold securities will be 40 per cent. of liabilities (minimum) from outset.

(b) Gold will eventually be 25 per cent. of liabilities (minimum), to be attained by the following stages: not less than 20 per cent. after 5 years, and not less than 25 per cent. after 10 years; with a minimum (overriding) of 30 crores.

(c) Rupee securities will be not more than 25 per cent. of liabilities, with a maximum (overriding) of 50 crores.

(d) Rupee coin will not be held in excess of the maxima set out below:—

To end of 3rd year	70 crores	} or 10 per cent. of liabilities which ever is greater.
From end of 3rd to end of 6th year	50 "	
From end of 6th to end of 10th year	35 "	
From end of 10th year	25 "	

(Paragraph 145 of Report).

3. The following transitory provisions have been recommended:—

(a) In order to carry out provisions (c) and (d) above, and to enable the new Bank to show in the opening accounts of its Issue Department a reserve ratio of gold and gold securities to liabilities of not less than 50 per cent. (i.e., to show a good margin above the

* The amount of the Gold Standard Reserve, whose functions include this liability, is Rs. 53½ crores.

† This figure may be subsequently increased or decreased, according as there is a net absorption of rupees or a net return from circulation. (See paragraph 3 (c) of this Schedule.)

minimum requirement), the Government of India should replace 7* crores of their created rupee securities by gold securities. If the Government should find it difficult to do so immediately they may be allowed to replace such rupee securities by 7* crores of Government of India sterling Treasury Bills (created *ad hoc*), these to be replaced within 2 years by gold securities of the kinds laid down elsewhere as eligible to be held in the Reserve. (Paragraph 145 of Report).

(b) The surplus of 18* crores in assets at the outset should be retained by Government in the form of silver, including the whole of the silver bullion, the balance being in silver coin. The Government should not re-issue (except to the Bank on demand) this coin or any rupee coin delivered by the Bank subsequently as redundant, vide (c) below. (Paragraph 145 and 148 of Report).

(c) The Bank should have the right to deliver to the Government redundant rupee coin in Reserve, i.e., any rupees coming into the Reserve in excess of the maxima stated in paragraph 2 (d) above. The Government would pay for every Rs. 5 thus received in coin Rs. 4 in notes, gold or gold securities, the Bank writing off the difference, of Re. 1, by a reduction of the figure of rupee redemption liability. (Paragraph 147 of Report).

The reverse procedure would be followed when rupees were delivered by the Government to the Bank on demand.

4. As a result of these proposals the constitution of the Reserve would at the outset* be as follows:—

<i>Liabilities.</i>				<i>Assets.</i>			
Note issue	...	...	185	Silver coin	...	...	67
Rupee redemption	...	...	50	Rupee securities	...	...	50
				Gold securities	...	...	88
				Gold	...	...	30
			235				118
							50%
							235

Gold and sterling securities would thus be 50 per cent. of total liabilities; and the Bank would be enabled, without overstepping the minimum statutory reserve ratio, to issue further notes against bills to the maximum of 60 crores.

* These figures, and those in the table in paragraph 4, are based upon the composition of the Reserves as in paragraph 1 above. They will require modification if the composition is different at the time of transfer.

SCHEDULE IV.
(PARAGRAPH 157 OF REPORT).

SUGGESTED FORM FOR PRESENTATION OF THE RESERVE BANK'S ACCOUNTS.

RESERVE BANK OF INDIA.

An Account pursuant to the Reserve Bank of India Charter Act, 192 ,
for the week ending on the day of

ISSUE DEPARTMENT.

<i>Liabilities.</i>		<i>Assets.</i>	
Bank Notes held in the Banking Department	Rs.	Rupee coin ...	Rs.
Bank Notes in circulation	Rs.	Government of India rupee securities ...	Rs.
Total Bank Notes issued ...	Rs.	Domestic Bills of Exchange ...	Rs.
Government of India Notes in circulation ...	Rs.	Gold securities ...	Rs.
Rupee redemption ...	Rs.	Gold specie or bullion ...	Rs.

Ratio of gold and gold securities to liabilities, per cent.
Dated the day of , 19 .

Chief Cashier.

BANKING DEPARTMENT.

<i>Liabilities.</i>	<i>Rs.</i>	<i>Assets.</i>	<i>Rs.</i>
Capital paid up ...		Notes ...	
Reserve ...		Silver rupee coin ...	
Deposits—		Subsidiary coin ...	
(a) Government		Bills discounted—	
(b) Bankers		(a) Domestic ...	
(c) Others		(b) Foreign ...	
Bills payable		(c) Government of India Treasury Bills ...	
Other liabilities		Balances held abroad ...	
		Loans and advances to the Government ...	
		Other loans and Advances ...	
		Investments ...	
		Other Assets ...	

Dated the day of , 19 .

Chief Cashier.

SCHEDULE V.

(PARAGRAPH 166 OF REPORT).

SUGGESTED OUTLINE FORM OF THE STATUTORY PROVISIONS TO BE IN FORCE
DURING THE PERIOD OF TRANSITION.

1. The Government of India shall receive from any person making a demand at the Office of the Controller of the Currency, or the Deputy Controller of the Currency, Bombay, or at any other office of the Government which may be notified for the purpose in the Gazette of India, gold in the form of bars containing approximately 400 fine ozs., in exchange for legal tender money, at the rate of Rs.21 as. 3 ps. 10 per tola of fine gold, subject to conditions to be notified in the Gazette of India.

2. The Government of India shall sell to any person in India who makes a demand in that behalf at the Office of the Controller of the Currency, Calcutta, or the Deputy Controller of the Currency, Bombay, or at any other office of the Government which may be notified for the purpose in the Gazette of India, and pays the purchase price in any legal tender money, gold for delivery at Bombay at the rate of Rs.21 as. 3 ps. 10 per tola of fine gold or at the option of the Government an equivalent amount of gold exchange (as defined below) payable in a country or countries outside India maintaining a free gold market and approved by the Governor General in Council subject to the condition that no single demand for gold or gold exchange shall represent a less value in gold than approximately 400 fine ozs.

The "equivalent amount of gold exchange" referred to shall be a sum in foreign currency calculated by the Government of India to represent the standard price of one tola of fine gold in the country outside India concerned less an amount representing the normal charges of a remittance of gold bullion from India to the country concerned. For this purpose the Government shall notify in the Gazette of India the country or countries upon any one of which, at the choice of the purchaser, gold exchange will be issued, and the rates of gold exchange.

Notes.—The provision as drafted above is intended to relate to the period during which the Government of India remains the currency authority. From the date when the control of the currency is transferred to the Reserve Bank to the date when the Bank assumes the final obligation to buy and sell gold, a statutory provision imposing similar obligations on the Bank should be put into force, with the requisite modifications. There should then be a proviso that the notifications as to the conditions of purchase of gold, as to the rates of gold exchange, and as to the country or countries upon which gold exchange will be issued, should be subject to the previous approval of the Governor General in Council.

NOTE BY SIR NORCOT WARREN.

Whilst joining in the recommendations of this Report, and advocating them without reservation, I wish to avoid any possibility of misconception by expressly stating that I do so in my personal capacity as a member of the Commission, and not in any representative capacity on behalf of the Imperial Bank of India. As a member of the Commission, my duty, which is wholly towards the public, is separate and distinct from my duty towards the Institution of which I am a Managing Governor. It will therefore be understood that by making these recommendations in so far as they may affect the Imperial Bank of India, I have neither the desire nor the capacity to commit that Bank.

NORCOT WARREN.

MINUTE OF DISSENT BY SIR PURSHOTAMDAS THAKURDAS.

I have signed the Report subject to the following Minute of Dissent.

I. HISTORICAL RETROSPECT.

1. My colleagues state in paragraph 11 of the Report that the stability of the gold value of the rupee is "based upon nothing more substantial than a policy of the Government, and at present that policy can be found defined in no notification or undertaking by the Government. It has to be implied from the acts of the Government in relation to the currency, and those acts are subject to no statutory regulation or control."

2. With this I entirely agree. But it is necessary to enquire whether the currency system and practice as developed, constitute a material departure from the main principles of the policy laid down 27 years ago, accepted by Government, and still binding on them, and if so, whether such departure was made either with the consent of representatives of the people, or with the approval of the Government of India, who were best able to judge of India's requirements.

3. The present currency system in India, as referred to us, starts with the closing of the Indian mints to free coinage of silver in 1893, and the recommendations of the Fowler Committee to link the rupee to gold, making the former a token coin for internal circulation. There have been one Royal Commission and one Committee since the Fowler Committee reported, and both give a history of the currency system of India since 1893. Whilst anxious, therefore, not to duplicate the historical facts by repeating them here, I feel it incumbent upon me, for a full elucidation of the problem before us, to summarise the history of the Indian currency system since 1893, by quoting the relevant despatches between the Government of India and the Secretary of State for India, with reference to each important aspect of the working of the Fowler recommendations, and the official policy supposed to have been based thereon.

4. Till 1893, India had a silver standard with free coinage of silver, and the rupee was a full value silver coin. Owing to the discarding of silver as a standard of value in leading countries in the West after the Franco-German War, wild fluctuations took place in the rates of exchange between India and gold standard countries. In response to a widespread general feeling amongst the organised sections of the commercial community in India, the Government of India proposed to the Secretary of State the stopping of the free coinage of silver with a view to the introduction of a gold standard. The Herschell Committee, to whom the proposal was referred for investigation and report, approved of the Government of India's proposals, with certain modifications. The recommendations of that Committee were accepted* by Her Majesty's Government; and in 1893 the Fowler Committee was appointed to consider and report on "the proposals of the Government of India for making effective the policy adopted by Her Majesty's Government in 1893 and initiated in June of that year by the closing of the Indian Mints to what

* Note.—See Notifications of 26th June, 1893, whereby arrangements were made for:—

- (1) The receipt of gold at the rate of 7.53344 grains of fine gold per rupee.
 - (2) The acceptance of sovereigns at Rs. 15.
 - (3) The issue of currency notes in exchange for sovereigns or gold bullion.
- (See pp. 66, 67, East India—Mint for Gold Coinage, 1913, No. 495.)

is known as the free coinage of silver. That policy had for its declared object the establishment of a gold standard in India."*

The Fowler Recommendations.

5. The Fowler Committee "looking forward . . . to the effective establishment in India of a gold standard and currency based on the principles of the free inflow and outflow of gold,"† recommended that:—

(1) The Indian Mints should continue closed to the unrestricted coinage of silver and should be opened to the unrestricted coinage of gold.

(2) The sovereign should be made legal tender and a current coin.

(3) The ratio between the rupee and the pound sterling should be Rs.15 to the pound, i.e., the exchange value of the rupee should be 1s. 4d.

(4) No legal obligation to give gold for rupees for merely internal purposes should be accepted; but

(5) The profit on the coinage of rupees should be held in gold as a special reserve and made freely available for foreign remittances whenever exchange fell below gold specie point.

(6) The Government should continue to give rupees for gold, but fresh rupees should not be coined until the proportion of gold in the currency was found to exceed the requirements of the public.

These recommendations were accepted "without qualification" by the Secretary of State, who on the 25th of July, 1899, "requested the Government of India to make preparation for the coinage of gold."‡

(i) GOLD CURRENCY.

First Stage: 1899 to 1902.

6. On the 31st of July 1899 the Viceroy telegraphed to the Secretary of State that the Government of India were preparing for the coinage of gold. The subsequent history of this essential project of a gold mint is recorded by the Government of India in their Despatch No. 110, of the 16th of May 1912:—

"(5) The Government of India put forward definite proposals for establishing in the Bombay Mint a branch of the Royal Mint for the coinage of sovereigns. A proclamation to effect this object was drafted, and received the approval of the Lords Commissioners of the Treasury. Meanwhile, difficulties had arisen regarding a number of administrative details connected with the establishment of the proposed branch mint. These difficulties occasioned much correspondence between the Secretary of State, the Treasury, and the Government of India, and the latter expressed their willingness throughout to carry out the requirements of the authorities of the Royal Mint. In May 1901 the Mint authorities expressed themselves as satisfied, but the Lords Commissioners of the Treasury, for the reasons given in their letters, No. 8239, dated the 22nd of May 1901 and No. 10,489, dated the 9th of July 1901, copies of which were forwarded with Lord George Hamilton's Despatch, No. 130, dated the 26th of July 1901, invited the Secretary of State to reconsider the whole question. They admitted that the original decision to coin sovereigns in India was a wise one, as indicative of the determination of the Government of India to adhere to a gold standard and of their intention to take practical measures to establish it. They pointed out, however, that subsequent experience had shown that the gold standard

* Fowler Committee Report, Par. 1.

† Fowler Committee Report, Par. 54.

‡ Para. 6 and 7, p. 8, East India—Mint for Gold Coinage, 1913, No. 495

was already firmly established in the public confidence, that sovereigns were being readily attracted to India whenever required, and that there was no reason for believing that the position of the gold standard in India would be strengthened, or public confidence in the intentions of the Government of India confirmed, by the mere provision of machinery for the manufacture of gold coins in the country. They further pointed out the practical difficulties in the way of the establishment of a branch of the Royal Mint in India, an arrangement which they described as anomalous, and likely in practice to give rise to inconvenience and possible friction.

"(6) Upon receipt of the views of the Lords Commissioners, the Government of India decided, for the time being, not to persevere with the proposals. In their despatch of the 25th of December 1902 they refrained from expressing any agreement or disagreement with the reasons advanced by the Treasury. But they had ascertained that the chief Indian Mining Companies had made arrangements for the regular sale of their gold outside the country, and that they were unlikely to alter those arrangements at an early date. In the absence of an assurance that a steady supply of Indian gold would be available for minting, Lord Curzon's Government preferred to drop the scheme, at the same time expressing their willingness to revive it should conditions change.

"(7) No public explanation was given in India of this sudden recession from what had hitherto been regarded as an essential feature of the currency policy inaugurated in 1898 and definitely established on the recommendations of the Currency Committee of 1898"

7. It is necessary to note here that this decision followed the failure of the Government's attempt to issue sovereigns in 1900 owing to famine conditions,* when, because of the low purchasing power then prevailing throughout India, the sovereign was an unsuitable form of currency.

Second Stage: 1909-1910.

8. In 1909, the Government of India in their despatch No. 236 of the 30th of September 1909 applied to the Secretary of State for a holding of about £9 million liquid gold in the Paper Currency Reserve, in order to make a gold currency possible. They stated in Paragraph 8 of that despatch that the popularity of the sovereign was rapidly increasing till checked by the crisis of 1907-8, and that sovereigns were actually changing "hands at a premium even in the chief commercial centres of the country, while for ordinary purposes they are practically unobtainable." They also urged in the same despatch: "We are of opinion that you should stay further drawings other than those required for ways and means purposes, for if further trade demand for money be genuine, the result must then be that gold will come out to us in India." (Paragraph 10.)

9. The Secretary of State by his despatch No. 25 of the 18th February, 1910, Paragraph 4, rejected these suggestions of the Government of India on the ground that they "might cause the periodical recurrence of stringency in the London money market." He also refused, by Paragraph 6 of his despatch, to allow the Government of India to publish the correspondence with him on the subject.

Third Stage: 1912-1913.

10. In 1912, the Government of India again urged the opening of a branch of the Royal Mint in India by their despatch No. 110 of the 16th of May 1912. This despatch gives a full history of the gold mint question from 1899 to 1912, and meets the various arguments that are advanced against a gold currency in India. The Secretary of State forthwith got

* Chamberlain Commission Report, Par. 25, p. 10.

in touch with the Treasury on the 27th of June 1912, and the latter by their reply of the 8th of August 1912, intimated that the Lords Commissioners of His Majesty's Treasury "are prepared to co-operate in giving effect to the proposal" but regret that they are "quite unable to agree to any scheme involving divided control." The Secretary of State, by his despatch No. 139 of the 18th of October 1912 communicated the Treasury's reply to the Government of India, pointing out in Paragraph 3 the two alternatives offered by them. In Paragraph 5 of his despatch he intimated to the Government of India that if both the alternatives "are dismissed, it will remain to consider whether it is desirable to produce at one of the Indian Mints a separate Indian gold coin of the denomination of, say, Rs.10; this course would be inexpensive and would avoid the interference of the British authorities in your general coinage operations." He added that he would be prepared "to sanction the issue of such a coin."

11. On the 20th of January 1913, the Government of India in a telegram said: "As you anticipated, we do not favour either of the alternatives offered by the Treasury. We therefore accept your offer to sanction the issue of a separate India gold coin of the denomination of Rs.10. We shall submit our proposals as to details of the coinage in due course." Thereafter it appears from Sir Lionel Abrahams' evidence before the Chamberlain Commission (Q. 1143) that discussion took place as to the dates on which "it would be desirable to make an announcement." On the 24th January, however, the Secretary of State suggested that, "before any final decision was taken, the usual procedure for eliciting public opinion in India should be followed." It need only be recalled here that in their despatch of the 16th of May 1912 the Government of India had stated that "it was not until last year, when a resolution was moved in the Imperial Legislative Council by Sir Vithaldas Thackersey, that the Government of India were formally invited to revive the proposals which had so nearly reached fruition a decade previously, and to embark on the coinage of gold. The discussion thus started has been vigorously taken up by the Press and by commercial interests both in India and England, and the whole subject has been thoroughly ventilated in a manner which makes any special reference to mercantile bodies in this country unnecessary." The Secretary of State informed the Government of India on the 14th of February that the Royal Commission, by that time proposed, "would inquire *inter alia* into the Indian currency administration." On the 10th of April the Government of India wrote that "the only possible course now" was to leave the question of the gold coinage for the Commission to decide.

Fourth Stage: Wartime Coinage.

12. During the War, the Bombay Mint was made a branch of the Royal Mint for the coinage of sovereigns for a short period. Later on, when some technical difficulties arose in this connection, the Bombay Mint coined gold mohurs of the weight and fineness of the sovereign. The Babington-Smith Committee, in Paragraphs 66 and 67 of their Report, recommended "that the branch of the Royal Mint which was opened in Bombay during the war for the coinage of sovereigns and half-sovereigns and has since been temporarily closed, should be reopened, and that arrangements similar to those in force in the United Kingdom should be made for the receipt of gold bullion from the public for coinage. The Government of India should announce its readiness to receive gold bullion from the public, whether refined or not, and to issue gold coin in exchange at the rate of one sovereign for 113.0016 grains of fine gold, subject to a small coinage charge."

Fifth Stage: Post-war Guarantee.

13. On the 24th of January 1922, Sir Malcolm Hailey, then Finance Member, spoke as follows in the Legislative Assembly, on a resolution

moved by the late Sir Vitthaladas D. Thackersey on the subject of Currency and Exchange:—

“ Now, Sir, let me turn to the second part of the Resolution. It proposes that the suggested Committee should consider the question of opening the Indian Mints to the free coinage of gold. Now, I must really assume that my Honourable friend, Sir Vitthaladas Thackersey, expert as he is in these questions, has really included this in his Resolutions to satisfy the feelings of some of his friends, rather than because he himself supposes that this question does actually need the further investigation of an expert Committee. He is well aware, Sir, that it was a cardinal feature in the policy of the Babington-Smith Committee that the Indian Mints should be opened to the free coinage of gold. Indeed, one of the intentions of the Committee in fixing the rupee on a gold basis was to permit of the free use of gold currency in India, and the opening of the Mints to the free coinage of gold is an aid to such a process, though of course it is not in itself an essential condition of it. We, Sir, are prepared out here to coin gold as soon as the need for gold currency arises. Sir Vitthaladas Thackersey suggested that the Royal Mint might on technical grounds refuse to allow us to do so. He need have no fear on that score. I can give him a guarantee that, as soon as the demand for gold currency arises, the Mint will be ready for it.”*

14. This, in short, is the history of what the Treasury called in their letter dated the 9th of July 1901 to the India Office, “ the frank abandonment of one of the details of the policy recommended by the Indian Currency (Fowler) Committee, which experience has shown to be unnecessary.” In their preceding letter of the 22nd of May, to the India Office, they had already expressed the opinion that “ The gold standard is now firmly established, and the public requires no proof of the intention of the Indian Government not to go back on their policy, which is beyond controversy.”

(ii) GOLD STANDARD RESERVE.

15. Another important recommendation, material to the Fowler Committee's scheme adopted by the Government of India, was that “ any profit on the coinage of rupees should not be credited to the revenue or held as a portion of the ordinary balance of the Government of India, but should be kept in gold as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary Treasury balances.”*

The First Departure.

16. In September 1900, the Government of India proposed to inaugurate this special reserve of gold. But the profits on coinage for the preceding year, amounting to £1 million, were temporarily unavailable, having been used to meet pressing famine demands. The then Viceroy, Lord Curzon, and the Finance Member, Sir Edward Law, disagreed on the policy to be adopted with regard to the gold holding in the Paper Currency Reserve. A lengthy despatch, No. 302 of the 6th September 1900, was addressed to the Secretary of State, with, in all, four Minutes upon it, one from the Viceroy and three from the Finance Member. As one of his reasons for differing from the Finance Member, the Viceroy wrote: “ I have a natural suspicion of anything that may tend, in the present early stage of our currency policy, to cause alarm. Most things that the Government of India do in the region of finance

* See Legislative Assembly Debates, Vol. II, No. 21, 24th January, 1922, pp. 1842-1869.

† Par. 60, Fowler Committee Report.

are misrepresented; many are misunderstood. We are constantly accused of having no confidence in our policy and of not pursuing it with consistency. I think that we should be very careful about taking any steps that may seem to give ground for these charges.”*

17. The Finance Member in Paragraph 26 of his first Minute said: “I do not lose sight of the fact that, however readily saleable our gold investments, they are not quite the same thing as actual gold, but holding such a sum as I contemplate in the actual metal, there would, under all conceivable circumstances, be plenty of time to effect gradual sales of the securities for the replenishment of the stock of gold, should the necessity arise.”

18. In his final Minute, dated the 23rd of August 1900, the Finance Member recorded the fact that “the general question of the advisability of legislation affecting our exchange policy was discussed in Council, and the view was, I think, unanimously accepted that such legislation should, if possible, be avoided.”

19. The Secretary of State, replying by his despatch No. 232 of the 13th of December 1900, said in Paragraph 3, that he was fully convinced of the advantages of maintaining a special gold reserve, and that, “in order to mark the primary object of its formation, . . . the title to be assigned to it should be the Gold Standard Reserve.” In paragraph 4 of his despatch he parenthetically observed that the word “gold” used in Paragraph 60 of the Fowler Committee Report appeared to be interpreted by Sir Edward Law as including “securities saleable for gold,” and in Paragraph 5 he gave his decision: “This proposal is in harmony with the 60th paragraph of the Report of the Indian Currency Committee, and I fully concur in the principle which it enunciates.”

20. Paragraphs 6 and 7 of the despatch lay the foundation of the departure from the Fowler Committee Report and need to be quoted in full here.

“(6) In order to ensure the due application of the gain made through the coinage, it is advisable that your Government should once in three months make up an account of the receipts and charges, and should forthwith remit the net profit to be held by the Secretary of State in this country.

“(7) It does not appear necessary to specify precisely in what gold securities the reserve shall be invested, whether in Consols or India Stock, or in any other manner. This will be at the discretion of the Secretary of State in Council from time to time, and the result will be periodically reported to the Government of India, and published in its Gazette.”

21. Thus, while the question in dispute referred to the Secretary of State actually concerned the Paper Currency Reserve, he gave a decision regarding the Gold Standard Reserve, and the interpretation put on the word “gold” in Paragraph 60 of the Fowler Committee’s Report was 13 years later a subject of close examination of the India Office representative before the Chamberlain Commission.

22. On the 7th of December 1906, the Secretary of State telegraphed to the Viceroy, with reference to the latter’s information about extreme stringency and the possibility of serious panic in India, that “for various reasons I wish to avoid addition of gold to Currency Reserve in London. This would, for example, entail diminution of reserve of Bank of England and, by its effect on discount rates in London, would probably interfere with arrangements for renewing debentures of Guaranteed Railways maturing in December.”

* Par. 4, Viceroy’s Minute.

Diversion for Railway Purposes.

23. In July 1907, the Secretary of State decided that £1 million out of the profits on coinage might safely be diverted from the Reserve to be utilised on railway capital expenditure, as recommended by a Departmental Committee on Indian railways. The Government of India, in their despatch No. 296 of the 8th of August 1907, Paragraph 3, observed as follows:—

“From the report of your announcement in Parliament, we understand that on the advice of the Committee which was recently appointed to consider the question of railway finance, you have decided on a different course. We do not therefore propose to trouble you with the reasons which led us to the conclusions outlined above. We accept your decision, although some of us entertain doubts as to its expediency, and although we should all have preferred if it had been possible to give the commercial community in India an opportunity of stating their opinion regarding the diversion of coinage before final orders were issued.”

Employment in temporary Loans.

24. In 1908, the Secretary of State by his telegram of the 2nd of April, intimated to the Government of India that the balance of the Gold Standard Reserve would be “lent on security on short temporary loans.”

The Government of India's protests.

25. In April 1909, the Government of India renewed their appeal to the Secretary of State that the whole of the profits on coinage should be devoted to the Gold Standard Reserve and should be held in liquid gold. In their despatch No. 89 of the 1st of April 1909 they emphatically pointed out that any failure to fulfil the “definite pledge of our active support of the Gold Standard, . . . either through the exhaustion of the reserve or for other cause, would shake the public confidence in our Currency policy to a degree which it would be difficult to estimate.” (Paragraph 2.)

26. In Paragraph 3, they said that the “Gold Standard Reserve . . . is the recognised fulcrum of our whole currency system; and its strength is of vital importance both to Government and to the merchants, capitalists and investors who are associated with us in the development of India.”

27. In Paragraph 4, they expressed doubt whether the “Gold Standard Reserve has ever yet approached the position which it ought to occupy.” They further drew attention to the fact that, between November 1907 and January 1909, they lost £15 million of gold, and pointed out that “this is the result of a little more than a single year of adverse conditions and of a famine which was more restricted in its area than is frequently the case with similar calamities.” With these preliminary observations, they submitted their first definite proposal for the Secretary of State's consideration.

28. With regard to the Secretary of State's decision to divert £1 million from the Gold Standard Reserve to railway capital expenditure, in Paragraph 5 they said:—

“We deprecated the decision at the time, but accepted it and have defended it against an outburst of public criticism in India. You subsequently determined that half the profits on the coinage of rupees should be consistently diverted in the same manner, and this course has accordingly been followed so long as any profits accrued. We would now ask you, however, to reconsider your decision, and to allow the future profits on coinage to pass into the Gold Standard Reserve without deduction, until the Reserve stands at a much higher figure than it has yet attained. We do not yield to your Lordship in our desire to press forward railway deve-

lopment in India; but we are convinced that the stability of our currency is a far more vital factor in the welfare of the country than the pace at which our railway facilities are extended. It is highly significant that this view is so widely shared by the mercantile community, in spite of the strong personal interest which attaches large sections of them to an active railway policy. We have already forwarded to you the expression of opinion by the Bombay Chamber of Commerce on the subject; and we now submit, for your information, copies of similar protests which we received from the Chambers at Calcutta, Madras, and Karachi. The position has again been dealt with, in a similar strain and with much conviction, by the Chairman of the Bombay Chamber, whose remarks on the subject at the Chamber's annual meeting on the 3rd instant have met with the general approval of the business public in India. We find ourselves in entire accord with these views, and we would earnestly press upon your Lordship the impolicy of retarding the growth of the Reserve when circumstances again permit us to renew the coinage of rupees."

29. In Paragraph 6 they submitted another aspect of the Gold Standard Reserve, in the following words:—

"Another aspect of the Gold Standard Reserve which attracts much criticism in India is the form in which it is held. When the Reserve was first established, it was the desire of Lord Curzon's Government that it should be kept in liquid gold in India. Your predecessor decided to the contrary, and it was invested in gold securities, which have lost appreciably in value. We are not prepared to revive the proposal that the gold should be held in India, though it is our duty to refer to the very strong feeling in favour of such a course which prevails in this country."

30. In Paragraph 7 they pressed for holding a substantial part of the Reserve in liquid gold, and the whole of this and the following Paragraph can usefully be quoted here:

"But, while we do not press for any change in the location of the Gold Standard Reserve, we attach very great importance to our second proposal, that a substantial part of the Reserve should be held in a liquid form. This seems to us to be necessitated both by expediency and on broader grounds of policy. We do not lay stress on the loss that has occurred in selling the Reserve securities during 1908; those losses have been more than covered by the accrued interest. What we fear is a combination of events which would demand the employment of the Reserve at a time when large sales of British Government securities in London would be contrary to Imperial interests. Such a combination is by no means inconceivable; and even in less serious situations the free employment of the Reserve might be gravely hampered by the form in which it is now held. The point is one on which informed public opinion in India is singularly unanimous. We are frequently asked why we strain after interest on the Reserve which is the basis of our currency system, and consequently one of the chief pillars of the credit of India; and it pointed out that other countries are careful to retain the ultimate foundation of their credit in bullion. We think these views deserve every consideration, and we are satisfied that it would have an excellent effect if your Lordship decides to refrain from further investment of the Reserve gold. That such a course is right on general grounds we consider to be beyond question. Our strength in combating a low exchange depends, broadly speaking, on our ability to reduce the supply of rupees and to augment the supply of gold. If we can do both simultaneously, our intervention is the sooner effective. At present, we can only reduce the supply of rupees; for our gold has already been put on the market; and all that is meant by realising it is the transfer of certain securities from Government to another holder. Moreover, we conceive that the position of the Government of India in the markets of the world would be much stronger as the possessor of a large store of liquid gold than as the possessor of a corresponding capital in Consols or similar securities.

In the former case, the Indian Government might in emergency be powerful to help the market; in the latter there would always be the potential danger of their wishing to realise at an inconvenient season. We would therefore urge on your Lordship the propriety of building up a substantial share of the Reserve in liquid gold, to be held under as nearly as possible the same conditions as the currency gold in London.

"We have intentionally avoided any general review of our currency policy. Our object for the moment is to place before you the views which are held in India regarding the Gold Standard Reserve, and the convictions that have been forced upon us by the experience of the last year. The two modifications in procedure which we recommend are in entire harmony with the declared policy of supporting the Gold Standard, and they will go far to secure public confidence in our intentions."

The Secretary of State's Reply.

31. The Secretary of State in his despatch of the 2nd of July 1909 admitted the importance of the subject of the Government of India's despatch of the 1st of April. But he refused to accede to the Government of India's request, "in view of the pecuniary disadvantage of holding a part of the Gold Standard Reserve in gold," and he accepted "the responsibility" for realising gold securities instead of gold "on occasion arising."

32. In Paragraph 10 of his despatch, he said as follows:—

"The consideration dealt with in the preceding paragraph is the most important of those mentioned by you in favour of your proposal, but there are certain others which should be noticed.

"One is that it is the desire of Lord Curzon's Government that the Reserve 'should be held in liquid gold in India' and that Lord George Hamilton overruled their recommendation to this effect, and decided to hold the Reserve in securities. I find, on referring to the correspondence which took place when the Reserve was established, that Lord George Hamilton understood the Government of India to desire that the Reserve should be held either in gold or in securities saleable for gold, or partly in one form and partly in the other. Whether his understanding of their wishes was correct or not, it is clear that it would not now be reasonable to attach more importance to suggestions regarding the management of the Reserve which were made before its establishment than to the results of the experience, extending over more than eight years, which has since been gained.

A second argument, to which you refer with approval, is that 'other countries are careful to retain the ultimate foundation of their credit in bullion.' I understand that these words are meant to convey that Governments which issue notes encashable in gold or silver on demand are in the habit of holding gold or silver in order to provide for the encashment. This remark is accurate, except so far as it needs to be qualified by a reference to the large fiduciary issues of most Governments; but it has little, if any, bearing on the question of the most suitable form for the Gold Standard Reserve. That Reserve will presumably be used in future, so far as it is used at all, for defraying the Home Charges when Council bills cannot be sold at or above the gold point, or for meeting London bills drawn by the Government of India. For either purpose easily realisable securities or bank balances are as useful as gold, and there is therefore no advantage in holding the latter.

"A third argument used by you is that it is desirable that the Government of India, when combating a low exchange, shall be in a position not only to contract the circulation of rupees in India, which is done under the existing system, but also to expand the circulation of gold elsewhere simultaneously (the object of the expansion of the circulation of gold being presumably to stimulate trade throughout the world and thus to

increase the demand for Indian produce), and that the latter operation is not within your power unless the Gold Standard Reserve is held in gold. I am not disposed to think that the release of such gold as might be held in the Gold Standard Reserve would have an important or speedy effect in creating a favourable balance of Indian trade; but, if it is to be held that this result would follow, it must equally be held that the previous accumulation of gold in the Gold Standard Reserve would, so long as it was proceeding, have an unfavourable effect on the Indian trade balance; and it would certainly injure India's power of borrowing in the London market."

Renewed Protests.

33. In Paragraph 11 he pointed out that in eight years there had been a net gain to the Gold Standard Reserve, after deducting the loss through the sale of securities, of £1,371,063.

34. In September, 1909, the Government of India, by their despatch No. 236, of the 30th of September, made a rejoinder to the Secretary of State's despatch. In Paragraph 4 they expressed their regret at the Secretary of State's decision in the following words:—

"On the second point your Lordship has not seen your way to accept our proposals. Holding that, for the purpose of maintaining exchange, securities capable of easy realisation are as efficient as liquid gold, while they are at the same time producing interest to the credit of the Gold Standard Reserve, you have declined to do more than keep a sum of £1,000,000 of this Reserve uninvested, such amount being either lent from time to time for short periods, on approved security, to approved institutions and firms, or deposited at interest with banks of high standing. We accept this decision with regret. While we admit the force of your argument in normal circumstances, and recognise that existing arrangements adequately met the requirements of the late crisis, we would once more emphasise our conviction that it is necessary to provide, and to assure the public that we do provide, against a situation in which the securities of the Gold Standard Reserve would not be easily realisable, or realisable only at heavy loss." They added, "accepting, however, as we must, your decisions," they desire to discuss the methods to be adopted in meeting exchange difficulties. They suggested a holding of gold in the Paper Currency Reserve in India, and the limitation of Council Drafts so as to build up the gold resources of the country, as already mentioned in Paragraph 8 above.

Diversion of Gold from India.

35. The Secretary of State rejected this request of the Government of India, and, not content with such rejection, he observed in Paragraph 3 of his despatch, No. 25 of the 18th of February, 1910, as follows:—

"As the stock of gold held by you now exceeds £5,000,000 I propose to revive shortly the arrangements which were in force in 1905, 1906, and 1907 for the purchase of gold in transit to England."

In those years, gold destined for India was bought in transit by the Secretary of State from the Exchange Banks, and diverted to England by Council Drafts which carried special rates thus to attract gold (*see* Qs. 910-940, Chamberlain Commission).

36. This is the history of the Executive action taken to carry out the policy recommended in Paragraph 80 of the Fowler Committee Report regarding "gold" reserves, which was accepted by Her Majesty's Government and the Government of India.

(iii) FREE INFLOW AND OUTFLOW OF GOLD.

37. In Paragraph 54 the Fowler Committee said that they looked forward "to the effective establishment in India of a gold standard and currency based on the principles of the free inflow and outflow of gold."

38. In Paragraph 8 of his despatch, No. 140 of the 25th of July, 1899, the Secretary of State communicated to the Government of India as follows:—

"I am also in accord with the Committee as to the general principles by which your Government should be guided in the management of your gold reserve in the absence of a legal obligation to give gold in exchange for rupees, namely, that you should make it freely available for foreign remittances whenever exchange falls below specie point, under such conditions as the circumstances of the time may render desirable."

39. On the 20th of November, 1907, when the American crisis led to a sudden demand for remittance of gold to London, the Viceroy applied to the Secretary of State for authority to refuse gold for export to the Exchange Banks, since such gold could at that time only be drawn from the currency gold in London. By his telegram of the same date the Secretary of State gave the Government of India authority to inform the Exchange Banks of their inability to accede to their application. This authority was not exercised; but, on the first demand for gold for foreign remittances, the "free outflow of gold," recommended by the Fowler Committee, was severely restricted.

(iv) COINAGE OF RUPEES.

40. Regarding the coinage of rupees, the Fowler Committee had recommended that "Government should continue to give rupees for gold, but fresh rupees should not be coined until the proportion of gold in the currency is found to exceed the requirements of the public." (Paragraph 60.) The unfortunate coincidence of a severe famine with the commencement of the introduction of the Fowler Committee's recommendation necessitated coinage of rupees until the time when the after-effects of the famine had passed. But when, in 1909, the Government of India reported that sovereigns were in demand and at a premium,* the refusal of the Secretary of State to permit a substantial holding of gold in India, in order to make a gold currency possible, marked a deliberate departure from the Government's policy as laid down in 1899. Lord Farrer and Lord Welby, in their supplementary minute to the Herschell Committee Report, Paragraph 15, emphasise the importance of this part of their recommendation (subsequently accepted also by the Fowler Committee) in a remarkable manner:—

"Under these circumstances, we could not join in the recommendation contained in the Report, without at the same time recommending that the Government of India should, in view of the ultimate adoption of the whole of their plan, be prepared to secure the convertibility of their token silver currency, and should, with that object, accumulate a sufficient reserve of gold."

(v) POSITION IN 1913.

41. When, therefore, the Chamberlain Commission was appointed by Royal Warrant dated the 17th of April, 1913, the position was as follows. The Government of India were committed by Statute to a gold standard, and by the acceptance of the Fowler Committee's recommendations (Paragraph 54), to a gold currency, based on the principles of the free inflow and outflow of gold. The main departures from the

* Vide Par. 8 above.

important principles of the scheme were made under orders of the Secretary of State, against the repeatedly expressed, and, indeed, tenaciously followed-up protests of the Government of India, who had the backing of the commercial community in India in that period. So apprehensive were the Government of India and the Secretary of State of the effect of these departures from their accepted currency policy, that not less than three times did they enjoin secrecy with regard to their decisions and to breaches of the officially accepted policy.

The following are instances:—

(1) The decision of 1900 to invest the Gold Standard Reserve in securities. (*Vide* Paragraph 18 above.)

(2) The correspondence of 1908-9 regarding the gold reserves, the gold currency and the limitation of sales of Council Drafts. (*Vide* Paragraph 9 above.)

(3) The decision of 1902 to abandon a gold mint. (*Vide* Paragraph 6, “(7)” above.)

(vi) SUBSEQUENT ENQUIRIES.

42. At this stage the Chamberlain Commission was appointed. The terms of reference to that Commission include, “the measures taken by the Indian Government and the Secretary of State for India in Council to maintain the exchange value of the rupee in pursuance of or supplementary to the recommendations of the Indian Currency Committee of 1898.”

43. The Commission submitted their Report towards the end of February, 1914; but, owing to the outbreak of war less than six months later, it could not be considered either by the Legislature or by the public of India.

44. On the 30th of May, 1919, the Secretary of State ordered a further enquiry and appointed the Babington-Smith Committee, who were directed in their terms of reference to make recommendations “ensuring a stable gold exchange standard.” This change from a gold standard to a gold exchange standard was in absolute contravention of the currency policy officially adopted in 1899, binding on the Government and the country, and still existing as the recognised monetary system of India. It is unnecessary to notice here the recommendations of that Committee.

The Position To-day.

45. The position therefore to-day, as I view it, is that the Government and people of India stand committed to the principles recommended by the Fowler Committee and adopted by the Secretary of State and the Government of India.

(vii) THE RESULT OF DEPARTURES FROM THE ACCEPTED POLICY OF 1899.

46. The reason why I consider it necessary to give a fuller narrative of Indian Currency history between 1899 and 1913 than my colleagues have done in the Report is, that the correspondence between the Government of India and the Secretary of State for India conclusively shows that the developments in the currency policy of India since 1899 were not justified by the wishes of the Government of India or by the requirements of the people as expressed by that Government. These could all have been met by action in accordance with the policy approved by the Secretary of State and the Government of India. I think it my duty to state the facts bearing on this aspect as they appear in the official correspondence, and I believe that such a presentation of the history of the Indian currency system is material to the recommendations made in the Report, and necessary for a due appreciation of the reasons of my dissent.

47. Many of the recommendations accepted by the Secretary of State and the Government of India in 1899 were departed from by Executive action. It may be asked whether these departures were detrimental to the interests of India. Apart from monetary profit or loss, the development of a currency system different from the one indicated by the Government's acceptance of a policy is undesirable in itself. When such a development is effected without the knowledge of the people most concerned, it becomes a real danger. I do not wish to criticise this aspect further, but will now mention the material loss which India has suffered by these departures:—

(a) It has involved the circulation of a very large number of token coins in India which could not be converted into international money, and, indeed, have proved to be a source of embarrassment to the Government in periods of weak exchange. This led to the unparalleled difficulties of the Government of India in 1918, and necessitated the purchase of large quantities of silver at abnormally high prices involving a correspondingly heavy loss on the Indian Exchequer.

(b) It has locked up the gold reserves in a form which admittedly involves difficulties in realising them.

(c) It has been the cause of grave misunderstandings between the Government of India and the public in India, misunderstandings for which the Government cannot possibly be blamed, and which can only be regarded as natural, and inevitable under the circumstances, on the part of the people of India. The policy of secrecy adopted has aroused serious distrust in their minds of the system as a whole. This distrust having continued over a period of a quarter of a century cannot be removed without whole-hearted measures. It is true that the policy adopted has earned for India a certain amount of interest on her reserves. It is stated* that, up to the 31st March, 1925, the net profit on investments has been £17,962,466 in interest and discount, after allowing for losses due to depreciation in value. The loss on sales of Reverse Bills in India exceeds Rs. 22 crores.† Besides this, one has also to take into account the effect produced on the public mind by the inability of the Government to realise at critical junctures the securities in which the reserves have been locked up.

The Secretary of State's object.

48. The late Sir Lionel Abrahams, who was examined at some length by the Chamberlain Commission, gave his reasons for every step that was taken. It is not necessary for me to go into the details of this explanation. The one outstanding impression that it leaves on my mind is that the Secretary of State was bent on earning for India all the revenue that he could by way of interest on the Reserves without deliberately breaking any existing statute. Indeed, there was, and is still, no statute to break. He continued to make investments in securities, instead of keeping the reserve funds of India in gold. The object that the Secretary of State had in view—the maximum financial advantage to India—was unobjectionable *per se*; but it was energetically pursued, against the representations of the Government of India, with complete disregard for the stability of the Indian currency system and the confidence which would have resulted from a substantial holding of liquid gold which was definitely prescribed and accepted. Sir Lionel Abrahams himself admitted in reply to Question No. 833 that “at certain times the markets in London for the sale of securities are extremely difficult.”

* See p. 20 *East India: Accounts and Estimates*. Cmd. 2498.

† See p. 155 *Council of State Debates*, Vol. III., No. 14.

The Attitude of the Bank of England.

49. Another witness before the Chamberlain Commission. Mr. Clayton Cole, till then Governor of the Bank of England, protested against the disturbance caused by the loaning of the Indian (Currency) Reserves in London. He said in reply to Question 3348: "I think it is objectionable to have large sums of money raised in London which are, so to speak, not in any sense required for English trade. The loans in the market of the Indian Government are very large. I had the figures taken out the other day at the bank, and I find that the amount they are lending now through their broker is approximately 11 millions. That is money which, in the London money market, you can hardly describe as good money, because it is liable to be withdrawn for reasons which have nothing to do with what I call the London market. The India Office lend the money at the best rate they can get, quite independent of what I call the considerations affecting the London market proper; therefore, that money may be lent, and is at times lent, in a way which is disadvantageous certainly to the Bank of England, which has to look after the gold reserves of this country." Such was the attitude of the Bank of England towards money lent in the London market to earn interest for the Reserves of India, a matter which naturally aroused suspicion in India.

II.—A GOLD STANDARD FOR INDIA.

50. The Fowler Committee recommended, and the Government adopted, a gold standard, based on gold reserves and a gold currency, as the currency system of India. I do not think that it is possible to improve upon the ideal of a gold standard based on gold reserves; and my colleagues agree in this. But it is now contended that since 1899, when the Fowler Committee reported, modern monetary practice has made a considerable advance, and that metallic gold need not form so large a part of the currency reserves under a real gold standard to-day as was believed to be necessary 27 years ago. We have, however, always to keep in mind the special circumstances of India. She has to-day sterling and rupee securities equal to about four and a half times the value of her gold coin and bullion in reserve. It is neither feasible nor desirable that the sterling securities should be realised and converted into gold forthwith, or in any manner other than the safest and most gradual to the markets of the world. The proportion of gold to securities in the currency reserves, set out in Paragraph 145 of the Report, demonstrates the necessity of the free inflow of gold into India being permitted in the normal course.

The importance of the free inflow of gold.

51. It has, however, been claimed that for the speedy reconstruction of the currency systems of other important countries disturbed by the War the greatest possible economy should be exercised in drawing on the world's stock of gold. The co-operation of these other countries in this connection, either with each other, or with India, is, however, neither assured, nor within sight, so far as I am aware; each is pursuing its individualistic national policy. If at any stage an international agreement should be framed for the economical distribution of the world's gold supplies, I am confident that India would be prepared to exercise self-denial in her gold requirements in proportion to that of other countries whose currency reserves were parallel to her own. But it is of paramount importance that any regulation of the inflow of gold should never be attempted by executive action, or by the currency authority. The main principles of the gold standard should be embodied in statutes, and

varied, if necessary, only by amendment to such statutes, i.e., with the fullest publicity and the concurrence of the Legislature. India is fully alive to the commercial importance of sound monetary systems in all the principal countries, and given the safeguards I have indicated, will always be ready to play her part in the proper co-ordination of the monetary policy of the world. On the other hand if any discretionary power vested in the currency authority* is used to interfere with the free inflow of gold, without legislative sanction, certainly for the next few years at least, the old suspicions regarding the currency policy will be revived, and the miasma of distrust, which we are anxious to dissipate, will be raised anew.

52. Non-interference with the free inflow of gold into India, except with due publicity and the concurrence of the Legislature, is, therefore, to my mind of paramount importance. I regard this as the foundation of the Indian currency system we are recommending and as the most vital factor in ensuring the fullest confidence of the people in the policy adopted. Confidence is one of the two essential desiderata in any reform of the currency system; and this view has the support of Sir Basil Blackett, the Finance Member. Subject to the condition outlined above being unequivocally guaranteed, I am in agreement with the gold bullion standard as recommended by my colleagues.

Demonétisation of the Sovereign.

53. My colleagues regard the demonetisation of the sovereign and the half sovereign as a necessary part of that standard. The sovereign and the half sovereign are the only gold coins legally current in India since 1893. I regret that I am unable to appreciate the necessity of this recommendation. I am not aware that any other countries, with a gold standard, and a central bank as the currency authority, have found it necessary to demonetise their gold coin. Indeed, several witnesses in London have expressed doubts whether either England or America would be prepared even to consider the adoption of such a course. But as nine of my colleagues are convinced of the necessity of demonetising the sovereign and the half sovereign as essential to the establishment of a gold bullion standard, I am prepared to view with diffidence my inability to see eye to eye with them, and do not press my objection beyond recording my own opinion.

My colleagues hope that when the gold reserves of India are adequate, the people of India may not want a gold mint. I share their hope. But if when that stage is reached other important countries have not demonetised their gold coin, then we must, human nature being what it is, be prepared to find the India Legislature asking for a gold mint. though, in all probability, gold coin will be as little used in India then as it now is in the West.

A PROPOSED SCHEME FOR A GOLD CURRENCY.

55. I think it necessary to record the very laudable departure made by Sir Basil Blackett in the history of the Government of India, by appearing* before us personally at the very start of our deliberations to give us the benefit of his expert knowledge and experience of the requirements of India, and his own views as to the most suitable currency system for the country. He also allowed two important officers of the Finance Department of the Government of India to appear before us in their

* As recommended in Pars. 104 and 166 of our Report. *Vide* Despatch No. 51, dated 24th April 1914, from Secretary of State to Government of India, Enclosure: "Note referred to in 4n"—Appendix 97.

personal capacity, and the difference in views expressed by him and by Messrs. McWatters and Denning only serves to show that the latter were expressing views without being trammelled by office or tradition.

Grounds for Rejection.

56. While I subscribe to the conclusion arrived at by my colleagues in regard to Sir Basil Blackett's scheme, I cannot but disagree with some of the reasons adduced in support of that conclusion. In the first place, I do not believe that the introduction of a gold currency can jeopardise the note circulation, except perhaps at the outset, when popular curiosity may create a certain amount of demand for gold currency. Such curiosity, however, would only be small in extent and temporary in duration. Instead of the replacement of notes by gold currency, as apprehended, the ready convertibility of notes into gold will, if anything, increase the confidence of the people in paper currency, and to that extent promote its circulation further. In the second place, I cannot agree with the observation that "the mere act of putting gold into circulation would not develop the banking and investment habit" in India. I agree with Sir Basil Blackett when he said that "the introduction of gold into circulation, although it is a wasteful and expensive system, is necessary in Indian conditions to inspire confidence in the people, and provide the stimulus which is badly needed for investment and the banking habit in India."

57. The two essential desiderata in any reform of the currency system of India are, according to Sir Basil Blackett, and as also accepted by my colleagues, "that the Indian people should have full confidence in their currency, and that the system should be reasonably intelligible to them." I have no hesitation in accepting Sir Basil Blackett's recommendation that the quickest and best method of ensuring this confidence is by making the internal currency absolutely convertible into gold coin at the will of the holder, as a necessary step "in the direction of the still more ideal form of currency, viz., an international Exchange Standard by which I mean a paper currency inconvertible internally, but freely convertible on a gold basis for external purposes."

58. It remains only to emphasise that Sir Basil Blackett has based his calculations of the cost of his scheme for a gold standard and a gold currency on assumptions which throughout have deliberately been made to err on the side of safety. The actual cost would, according to him, be considerably less than his estimate of Rs.1½ crores per annum for the first five years and from Rs.61½ lacs to Rs. 112 lacs per year thereafter. The apprehension that the cost to India will be increased by an indefinite and an incalculable amount due to the replacement of notes by gold is, as mentioned above, groundless and need not seriously be considered.

59. The Fowler Committee had considered a suggestion made to it to borrow for the purpose of introducing a gold currency. But they rejected the suggestion. There may be people to-day anxious to disregard the increased cost involved in the introduction of a gold currency by this method, particularly in view of the departures made from the Fowler Committee's recommendations, in preference to a gradual process of acquisition of gold. The only reply to such impatient enthusiasts would be the advisability of India doing nothing to retard the reconstruction of devastated Europe, if it can be avoided by a slower and more natural process of accumulating gold for her requirements.

60. All the same, even though I also cannot accept Sir Basil Blackett's scheme, I should like to record my sense of appreciation of the service that he has rendered to India in clarifying once for all, with the weight of his knowledge and experience, the fundamental requirements of her currency system.

III.—A CENTRAL BANK FOR INDIA.

61. The main question to be determined in regard to the authority to which shall be entrusted the working of the Indian currency system is whether, as recommended by my colleagues, a new Bank should be started, to exercise the functions of a Central Bank, or whether the Imperial Bank of India, which now performs some of the functions of a central bank, shall be developed into the Central Bank of India. The first scheme would involve the existence of two banks working side by side, each supported, wholly or in part, by the user of the Government balances. Whilst fully appreciating the reasons which have induced my colleagues to propose the creation of a new central bank, and recognising that this is perhaps the ideal system, in the special conditions of India I am of opinion that the ends in view, for as far ahead as we can see will be better served by developing the Imperial Bank of India into a full-fledged central bank. It is contended that if the Imperial Bank of India is developed into a central bank, some of its commercial activities will be curtailed. I apprehend no serious curtailment. On the other hand, I consider that such curtailment of the commercial business of the Imperial Bank which might follow its conversion into a central bank would conduce to the growth of new banking institutions, started by private enterprise in India. The bulk of the business laid down for the proposed new Central Bank can all be transacted by the Imperial Bank of India as the Central Bank. In some cases, it would only necessitate a change in the method or form of its business.

Suitability of the Imperial Bank of India.

62. It is said that if the Imperial Bank is developed into a Central Bank "the country would lose the benefit of the elaborate and widespread organisation which has been set up through the length and breadth of India to make available to the community the increased commercial banking facilities which are so urgently needed and to assist in fostering among the people as a whole the habit of banking and investment." I do not think that this necessarily follows; it is only necessary to mention the model of the Bank of France, which successfully discharges both the functions of a Central Bank and those of "the initiator of banking facilities" through more than six hundred branches. It is admitted that in India none but a State-aided bank has either found it possible systematically to develop branches, or is likely to be able to do so in future. The importance of spreading banking facilities throughout the length and breadth of the land needs no emphasis. Every previous currency inquiry has laid stress upon it; but from the time of Mr. Hambro's minute in the Fowler Report of 1899 till to-day the progress has been lamentably slow. The bank in India with the largest number of branches is the Imperial Bank; the number of these is only a hundred and sixty-four, yet witnesses of authority have stated that India needs thousands of branch banks. It is imperative that the Government of India should for years to come regard the rapid extension of banking facilities as an essential and urgent part of its financial policy. This can be accomplished only through the strongest banking institution in the country. No rival therefore should be allowed to impair the prestige and authority of the Imperial Bank of India, and no division of the Government funds between it and another institution should be permitted to restrict its capacity to open new, and even temporarily unprofitable, branches which are essential to the mobilisation of the resources of the country.

63. Moreover, I do not see at present, or for several years to come, any scope for two banks working side by side, one fully, and the other partially, with Government support. My colleagues recommend that

the new Central Bank should only re-discount drafts. The present currency and popularity of drafts in India is limited, though they are not by any means a new feature in its banking system. In fact, they have been used for generations; but, during the last 50 years or more the tendency has been to work on credits on the lines of the Scotch banks. The system recommended by my colleagues may perhaps be evolved in course of time; but for the present there will be comparatively few bills available to the Central Bank, and certainly fewer still, if any, with the signatures of banks. For, at the moment, the most active banks in India are the Exchange Banks which would go to the Central Bank to re-discount external bills—they do not discount internal bills, or *hundis*, to any appreciable extent—only when the Central Bank rate for re-discounting is lower than the discount rate in London. Judging by past experience, I do not foresee such a contingency; and I fear that the Central Bank may find very little business available to it, unless it competes with the Imperial Bank. My apprehension, therefore, is that either the Central Bank and the Imperial Bank will have to compete with each other, or the Central Bank will not find sufficient scope for business to employ its funds. Either result would, to my mind, be undesirable. My question, therefore, is: Why multiply, if it can be avoided, institutions, supported by Government balances?

64. On these grounds, therefore, I recommend the evolution of the Central Bank from the existing Imperial Bank of India, instead of by starting a new bank in addition thereto, as recommended by my colleagues. This would necessitate restriction of the earnings of the Imperial Bank of India. Such a restriction would necessarily be confined to the present rate of dividend, as the minimum, because the Imperial Bank has been earning it for several years. Over and above that minimum the increased dividend should be limited to 2 per cent., on the lines recommended in the scheme outlined by my colleagues. Unless the shareholders of the Imperial Bank agree to such restriction of their dividends, there will, of course, be no alternative left but to start a new Central Bank.

IV. STABILISATION OF THE RUPEE.

65. My colleagues recommend that "the rupee be stabilised in relation to gold at a rate corresponding to an exchange rate of 1s. 6d. for the rupee." The main grounds on which this proposal is made is that one shilling and sixpence is the *de facto* ratio, and that prices, wages, contracts and public finances, in other words, conditions generally, have either substantially adjusted themselves to it, or "the least injury will be done to all interests by adhering to that rate." I am unable to accept any of these premises, nor the conclusion it is sought to draw from them.

(i) THE DE FACTO RATIO.

66. The legal standard of money payments in India recommended by the Herschell Committee in 1893 was one shilling and fourpence to the rupee. That standard was accepted by the Fowler Committee in 1899, and officially adopted by the Government of India. It remained the effective standard until the 28th of August 1917, when, in consequence of the abnormal rise in the price of silver caused by the War, the Government of India raised the rates for the sale of Council Drafts to correspond roughly to the price at which silver for coinage could be bought. The Babington-Smith Committee recommended, in their report dated the 22nd of December 1919, that an entirely new ratio of 2s. gold to the rupee should be established. The Government of India, despite earnest entreaties in the Imperial Legislative Council, passed the legislation necessary to establish the rupee at 2s. gold in September 1920, when the actual rate was 1s. 4½d. gold, and gold

prices were slowly, but unmistakably, falling. This rate, which was placed on the Statute Book, was neither the *de facto* rate, nor was it warranted by world conditions. The operations undertaken to establish and maintain this unnatural rate were:—

- (a) Sales of Reserve Councils, £55½ millions.
- (b) Deflation in India to the extent of Rs.35 crores.

The Government of India dared not prosecute the experiment after these operations. The attempt to stabilise the rupee at 2s. gold was abandoned; and the value of the rupee was allowed to adapt itself to market conditions without any further attempt artificially to control it. India reacted to the violent fluctuations in prices in other parts of the world, and the rupee varied from 11¾d. to 1s. 3¼d. gold, from August 1921, to September 1924.

The Opportunity of 1924.

67. When, in September 1924, the rate was approximately 1s. 4d. gold (it ranged during the month between 1s. 5¼d. and 1s. 6d. sterling), suggestions were made officially to the Government, in the Legislative Assembly, to restore this ratio to the Statute Book, in place of the fictitious ratio of 2s. gold. The Government of India declined to favour these proposals. Their telegram of the 11th of October 1924 (when exchange was about 1s. 4¼d. gold) to the Secretary of State shows that their policy then was to look for, in their own words, "a permanently higher rate than 1s. 4d. gold." Subsequently, when in April 1925 the pound sterling reached gold parity, the Government of India were able to talk* of this new ratio as 1s. 6d. gold, instead of 1s. 6d. sterling. The unavoidable conclusion is that the Government of India could have stabilised the rupee at 1s. 4d. gold in September 1924, thus restoring the long-established legal standard of money payments, if it had chosen to do so.

How the rate of 1s. 6d. was reached.

68. It has further to be considered how the rate of 1s. 6d. sterling was attained. The pre-war average expansion of currency in India was over Rs.20 crores per annum. During the last four years the net expansion or contraction has been as follows:—

In Crores of Rupees.

Year.	Rupees and Notes.	Sovereigns.	Nett.
1921-2	- 1	+ 3	= + 2
1922-3	- 6	+ 9	= + 3
1923-4	+ 15½	+ 7	= + 22½
1924-5	+ 1	+ 15	= + 16
			+ 43½ crores

The average expansion was therefore 11-12 crores a year. No wonder that the Imperial Bank of India rate went as high as 8 per cent. towards the end of 1923, and remained there for the first half of 1924, money in the chief trading centres of India being not available even at that rate during the period! Indeed, in the Viceroy's telegram to the Secretary of State, dated the 8th of October 1924, it is admitted "that the stringency in the market is the direct outcome of Government action in contracting

* Vide Appendix 98. Telegrams from Viceroy to Secretary of State dated 8th October 1924 and 11th October 1924.

currency, or rather in placing strict limits on possibilities of expansion We should have difficulty in refusing to provide more generously for additions to currency even if we wished to do so and there is serious risk of a financial crisis if we keep the screw on too tight.”*

69. In fact, the efforts of the Government in preventing the normal expansion of currency had reached such a stage by October 1924 that the Secretary of State expressed himself as follows in his telegram to the Viceroy, dated the 10th of October 1924:—

“It seems to me, however, that the vital consideration is not so much the actual level of exchange at the moment as the avoidance of such abnormal stringency as might threaten the financial and economic position.”

Thus ratio of 1s. 6d. sterling was attained by official administration of the currency.

70. Whilst the currency was being administered in this manner, the natural corrective to rise in Exchange—the tender of gold at the Currency Offices—was made impossible for practical purposes by the retention of the fictitious ratio of 2s. on the statute book. The gold imported into India as genuine cover for her favourable balance of trade could not function as currency† and was a mere commodity. Under such conditions, and by such actions, it was within the power of the Government of India to establish almost any rate, and to maintain it for a time.

71. It might be contended that the ratio of 1s. 6d. has been established since October 1924, and that therefore it should be accepted as the *de facto* rate. Let us, however, be quite clear about this. Sterling was not on parity with gold in recent years till June 1925. From October 1924 onwards the rupee was not 1s. 6d. gold, but 1s. 6d. sterling. The rupee did not reach 1s. 6d. gold till June 1925, when sterling reached gold parity, and this rate has, therefore, now prevailed only for a year.§

72. Account must also be taken of the manner in which the rupee has been maintained at 1s. 6d., even in the very favourable conditions of the day, when India has experienced four good harvests in succession. From March 1926, there was a visible lull in exports, believed to be temporary and the rupee immediately sagged. Possibly this tendency was later aggravated by speculation but the subsequent history of the Exchange does not indicate that such speculation, if there was any, was a serious, or more than a temporary factor. The rupee was maintained at 1s. 6d. only by the deflation of the currency by Rs. 8 crores, during April last, and by an offer by Government through the Imperial Bank of India to sell Reverse Councils at 1s. 5½d. It has been argued that as Government used its resources to prevent the rupee from rising *above* 1s. 6d. sterling since October 1924, conversely, it was justified in taking administrative action to prevent it from falling *below* 1s. 6d.¶ I cannot accept this contention. Unlike other countries with their currency, Government deliberately rejected the opportunity of stabilising the Rupee at its pre-war ratio, when reached. Insisting as they did on retaining the legal fictitious ratio of 2s. Government prevented gold from being tendered at the currency offices in settlement of India's balance of trade. They thus exposed the Indian exchange to the risk of a rise to any height (see telegram from the Viceroy to the Secretary of State, of the 11th of

* See Appendix 98. Telegram from Viceroy, 8th October 1924.

† See Appendix 98. Telegram from Viceroy, 10th October 1924.

‡ See Appendix 98. Telegram from Secretary of State, 15th October 1924.

§ The rates ruling in September and October 1924, were as under:—

September: 1s. 5¾d. sterling = 1s. 3¼d. gold.

October: 1s. 5¼d. sterling = 1s. 4¼d. gold.

¶ Vide Appendix 98. Telegram from Secretary of State to Viceroy, 19th November, 1924.

October 1924), and it is a mercy that they did not select a higher rate than 1s. 6d. at which to intervene. That does not, therefore, afford any justification for administrative action to prevent the rupee from finding its natural level downwards. Indeed, if it is contended that the course of the rupee both ways can justifiably be regulated by manipulation, there was no necessity to refer to this Commission the question of the ratio which has been made a *fait accompli* by administrative action, as foreshadowed by the Secretary of State himself* in his telegram to the Viceroy of the 24th of September 1925. And, under the circumstances, this Executive action must be regarded as calculated to prejudice both our enquiry and our findings.

The Ratio and the Legislature: a Pledge.

73. It is true that there is no Statute governing the selling of Reverse Councils; but it will be recalled that after the fruitless and prodigious sales of 1920, Sir Malcolm Hailey, then Finance Member, gave an undertaking to the Legislative Assembly, on the 24th of January 1922, in the following terms:—

“ But there may nevertheless still be some who fear that we may be intending to use these reserves artificially to raise exchange. Now the method by which we could utilise these reserves would, of course, be only that of re-opening the sale of Reverse Councils: and I can give the Assembly this much guarantee, at all events, that we should not re-open the sale of Reverse Councils in order to maintain exchange or to raise exchange in the manner suggested, without first coming to this Assembly.”†

I consider that the recent Executive action in making an offer for the sale of sterling, as it is put, is nothing but an offer by Government to sell Reverse Councils, without using these words. The Assembly was in session till the end of the third week in March last, and exchange had shown signs of weakness even then. The Government of India in their telegram‡ of the 19th of March, to the Secretary of State, referred to what they called the recent “ pronounced weakening of exchange ” which “ makes it desirable that we should be prepared for possibility that exchange may decline to lower gold point as determined on basis of 18d. gold rupee.” The Government could well have approached the Assembly for their concurrence in offering to sell Reverse Councils, or to sell sterling, as it is put, on a contingency arising. In relation to the Assembly, therefore, this action on the part of the Executive was nothing short of a breach of faith.

74. It is important at this point to mention that the Legislature in India has shown a sustained interest in the question of a suitable ratio for India in place of the ineffective 2s. ratio. The late Sir Vithaldas D. Thackersey moved a resolution in the Assembly on the 24th of January 1922, and a full report of the debate raised on it is given in the Assembly Debates, Vol. II, No. 21. Sir Malcolm Hailey assured the mover of the resolution that “ our power of rapid deflation is by no means considerable,” and repeated that “ when the Secretary of State sells Council Bills he ceases to have any power to raise exchange.” Sir Vithaldas Thackersey, replying, expressed his fear that “ when the opportunity occurred,” the Secretary of State would use his power to manipulate exchange. Even with the guarantee that Reverse Councils would not be sold until the Assembly had been consulted, he urged that exchange could artificially be raised

* Vide Appendix 98. Telegram from Secretary of State to Viceroy, 24th September 1925.

† Vide Assembly Debates, Vol. II, No. 21, 24th January 1922.

‡ Vide Appendix 98. Telegram from Secretary of State to Viceroy, 24th September 1925.

if the Secretary of State refused to sell Council Bills when trade demand arose. Sir Malcolm Hailey reiterated that in the circumstances the Secretary of State's power to influence exchange was very small.

75. In March 1921, in a debate in the Council of State, the Financial Secretary to the Government stated: "If there is going to be any fundamental change, any new rate to be settled or any attempt at a permanent solution, neither the Government of India nor the Secretary of State will do this off his own bat."

76. Events have justified the apprehensions of Sir Vithaldas Thackersey. Deflation has not yet taken place by the methods which he feared, i.e., by sales of Reverse Councils or the withdrawal of the Secretary of State from the market. But deflation, and a consequent raising of exchange, has been accomplished by preventing the expansion of the currency to the extent normally required by India, as evidenced by the pre-war annual average of expansion. In fact, the Government of India themselves pleaded with the Secretary of State in Paragraph 3 of their telegram* to him of the 4th of November 1924, when they pressed for authority to prevent the exchange rising above 1s. 6d., in the following words:—

"We doubt whether sufficient weight has been given by you to the great improvement in internal economic conditions which has taken place in India, and to the check which in the last few years has been placed on the expansion of currency. In the last two years the raw materials of India have been in great demand, with the result that there has been a substantial trade balance in her favour."

In a word, India has been starved of her natural currency requirements and this operation, being equivalent to deflation, has been effective in raising the rate of exchange.

Authoritative Views on Artificial Measures.

77. Two distinguished authorities in the financial world, the Right Hon. Montagu C. Norman, Governor of the Bank of England, and Mr. Benjamin Strong, Governor of the Federal Reserve Bank of New York, have expressed their views on the question of the ratio as follows:—

Q. 14,385. *Sir P. Thakurdas*: It does not matter, then, in your opinion, whether the present rate is stabilised by natural means or by something which is artificial?—*Mr. Montagu Norman*: If I was aware of the existence of an unnatural position which had resulted from the adoption of exceptional measures, that might change my view; but, as I understand it, though I have not studied the question, it has been generally speaking by natural causes that the Indian exchange has come to be where it is, and to remain there over a long period; and I see no reason to advocate that it should be altered.

Q. 15,473. *Chairman*: Are you able to consider the matter from the point of view of the statistical position of the reserve?—*Mr. Benjamin Strong*: I should say that the three main considerations would be first, the domestic readjustments to a given price of the rupee; the extent to which any artificiality has entered into the management of the external price; and the size of the reserve.

I wonder if these two eminent authorities would have much doubt about the nature of the conditions under, and the measures by which the rate of 1s. 6d. has been attained and maintained.

* Vide Appendix 98. Telegram from Viceroy to Secretary of State of 4th November 1924.

78. On all these grounds I am strongly of opinion that any recommendation to fix the rupee at 1s. 6d., because it is the *de facto* rate, is not *per se*, entitled to the slightest weight. The ratio of the future must be decided on weightier considerations.

(ii) ADJUSTMENTS TO A 1s. 6d. RATIO.

79. The main point for examination is whether there are any economic adjustments to the current rate of Exchange still incomplete, and which, after stabilisation of the rupee at 1s. 6d. will involve a disturbance of existing conditions. Such an examination should be in the following directions:—

(1) Whether the adjustments are complete, and if incomplete, in what directions.

(2) In the latter case, the period required for complete adjustment.

80. No evidence has been forthcoming, even from experts, as to the time necessary in India for the essential adjustments to take place. Mr. Keynes, in a brochure issued when Great Britain returned to the Gold Standard, in April 1925, indicates that in a country like the United Kingdom, a period of about two years is necessary for adjustments to take place to a 10 per cent. variation in Exchange. If this is so in a country the bulk of the trade of which consists of exports and imports, compared with which, the internal trade is small, in the case of India, where the proportions are reversed,* the period must undoubtedly be longer.

81. The important directions in which adjustments have to be sought should include at least the following—

(I) Prices.

(II) Wages.

(I) Prices: General Considerations.

82. It is a historical fact that prices rise during wars, and gradually fall after peace. The Babington-Smith Committee was led into believing that prices would remain more or less on the high level at which they stood at the end of 1920; and that was an important ground on which they recommended a ratio of 2s. gold to the rupee. Since then, prices have fallen. The consensus of opinion, both in the United Kingdom and in America, appears to be that the present level of prices will at best only be maintained. Where a doubt about stability in the future was expressed, it was in the direction of a fall. No one has ventured to predict that gold prices will rise; the monetary reconstruction of European countries and their economic recovery, and the present isolation of Russia, are such important factors, that this is not apprehended.

83. For the purpose of this examination the prices that have to be taken into consideration are (1) prices of articles exported from India; (2) prices of articles produced and consumed locally; (3) prices of imported articles.

Articles of export.

Regarding (1) articles of export, the bulk of these have to be sold in competitive world markets, and their prices, governed by world prices,

* *Vide* Appendix 26—Dr. Balkrishna's written statement, "Domestic trade versus foreign trade."

automatically adjust themselves, practically from day to day, to the prevailing rate of exchange. Even in the case of articles like jute, in which India enjoys a monopoly, there is an upper limit of price beyond which the effective use of substitutes is resorted to. If, therefore, the rupee is appreciated to a point at which, during the period of non-adjustment, the Indian cultivator cannot reduce the prices of exportable articles to the world level, he will miss the world market when there may be a demand for his produce. He must either sell his produce at once at a loss, or be forced to hold on for a better price, which, however, would expose him to the risk of having to sell his produce later at a time when the world's demand has been met from other sources, and consequently, to accept a still more unremunerative price. He *must* sell his produce sooner or later, for his holding power is low.* While, therefore, price adjustment in the case of articles of export must be complete at any moment, and at any rate prevailing, the Indian cultivator is exposed to this serious risk pending adjustments in *other* directions.

Produce consumed locally.

84. Regarding (2) Indian produce locally consumed, this is not nearly as sensitive to exchange fluctuations. The higher or lower purchasing power of the rupee in terms of gold should ultimately be reflected in the prices of these articles, but the adjustment is neither automatic nor speedy. For instance, if the price of wheat in the world market falls, wheat sells at a lower price for local consumption in India.. The great millets, Jowari and Bajri, consumed by the poorer classes in India, always sell at a price level below that of wheat. Should wheat fall so as appreciably to narrow the normal margin of difference, either the millets are sold more cheaply, or consumers may take to wheat. No one can say at what point this substitution takes place, and it is difficult to estimate the time or the extent of the narrowing of the margin between these staples. But it is beyond doubt that everything else, such as seasonal conditions, being normal, the reaction of prices of Bajri and Jowari to a fall in the price of wheat would take a considerable time.

Articles of Import.

85. Regarding (3), articles of import, it is true that a higher exchange would make these articles available to the consumer in India at a lower rupee price. To that extent, the consumer benefits; but here the question arises as to the proportion of imports which are consumed by the masses of India. This has been given at various percentages of the total imports of India, the highest being 40 per cent. and the lowest 7 per cent. In the absence of official information, one can only name these two extreme estimates.

86. The conclusion to be drawn from these premises is that while adjustment in the price of articles of export to the rate of exchange is complete at any time, until the other adjustments are complete, the producer is exposed to serious risk of loss. For articles entering into the internal trade, the proportions of which are many times larger than the external trade, no reliable data are available of the adjustments that have taken place till now to the pre-war rate of exchange. These are only assertions without proof. Regarding imported articles, the benefit from a higher exchange is immediate; but the proportion of such benefit accruing to the masses is very small, estimates ranging between 7 per cent. and 40 per cent. of the imports.

* Compare Fowler Committee Report p. 25 middle paragraph, Minute of Dissent by Mr. Robert Campbell and Sir John Muir.

The Course of Indian Prices.

87. In the light of these general considerations, it is instructive to examine the recommendation that the rupee should be stabilised in relation to gold at a rate corresponding to an exchange rate of 1s. 6d. for the rupee. The chief reason advanced by my colleagues in support of this recommendation (Paragraph 176 of the Report) is their conviction that at the present rate of about 1s. 6d. "prices in India have already attained a substantial measure of adjustment with those in the world at large, and as a corollary that any change in the rate would mean a difficult period of readjustment, involving widespread economic disturbance, which it is most desirable in the interests of the people to avoid, and which would in the end be followed by no countervailing advantage." While recognising that "index figures are not an infallible guide, and that there are many directions in which they might lead one astray," they consider that such figures are "more reliable in indicating the trend of prices in each single country than in comparing the relative levels of prices in two or more countries."

The Arguments of my Colleagues.

88. Treating the statistics "in the most generalised way" they observe that during the eighteen months from December 1922 to June 1924, when the rupee was worth about 1s. 3d. gold, the rupee price level ranged round a mean of about 176; that in the succeeding year, when the rupee was rising to 1s. 6d. gold, the rupee price level fell below 160, since when, while the rupee has remained round about 1s. 6d. gold, the rupee price level has ranged round a mean of about 158, with recent tendency to fall in sympathy with world prices. They then proceed by means of a graphic representation (Figure 1) to show that prices in India in terms of gold have, since the middle of 1922, generally moved parallel to movements in world prices in terms of gold. This is, of course, as it should be; for after all, there is such a thing as a world price level measured in terms of gold, to which prices in any country, measured also in terms of gold, must in general trend correspond, if not in actual level. If Indian prices in terms of gold have moved approximately parallel to world prices in terms of gold, English prices in terms of gold have done the same. I shall therefore confine myself to movements in India rupee prices.

Sir Basil Blackett's Argument.

89. Sir Basil Blackett in the evidence that he gave before us on the 24th of November, 1925, also contended that "substantial equilibrium of prices had been attained" to a rate of 1s. 6d. because "British, American, and Indian prices have come together at a figure about 160." (Q 27.) He added, however: "But I am not quite sure what value is really to be attached to any of these index numbers, and particularly to the Indian one. It is hard to be sure that it is completely valid. At the same time it does suggest that prices have now come together . . . You will see that there is a considerable fall in Indian prices under certain heads when you get into details." (Q. 27.)

90. The argument was that because the index numbers of wholesale prices, in India (in rupees), in the United Kingdom and the United States of America (in gold) were at the moment all at about the same level, Indian rupee prices had "generally speaking" adjusted themselves to 1s. 6d. If there is any value to be attached to index numbers—and Sir Basil Blackett is "not quite sure" what value can be attached to them—they lead to a very different conclusion.

The Course of Prices from June, 1925.

91. Early in June, 1925,* the rupee touched 1s. 6d. gold. The Calcutta index number for that month was 157. For February this year the number was 158, and for March 155. In between, it was 160 for July, 157 for August, 158 for September, 160 for October, 164 for November and 163 for December and January. In other words, after the rupee touched 1s. 6d. gold in June, 1925, for six months there was a progressive rise. (And even in March, 1926, the level was only two points lower than in June, 1925.) On the other hand, sterling reached its pre-war parity also in June, 1925. The index number of sterling prices for that month was 158. Since then it steadily fell to 149 in February, 1926. In other words, since sterling reached gold parity there was up to February, 1926, a fall of nine points in the British index number, compared with a rise of one point in the Calcutta number as between June, 1925 (when the rupee also touched 1s. 6d. gold), and February, 1926.

92. Taking Bombay prices, from July, 1925 (on the first of July the rate was 1s. 6 $\frac{1}{4}$ d.), to February, 1926:

- (1) Bombay wholesale prices fell from 158 to 152, i.e., 6 points;
- (2) U.S.A. gold prices fell from 160 to 155, i.e., 5 points;
- (3) United Kingdom prices fell:—
 - (a) *Board of Trade*†—157 to 149, i.e., 8 points.
 - (b) *Economist*†—165 to 154, i.e., 11 points.
 - (c) *Statist*†—158 to 150, i.e., 8 points.

It would appear, therefore, that the fall in Bombay prices was due to the fall in gold prices themselves, and not to any adjustment of Indian prices to 1s. 6d.

93. The course of Calcutta prices in this period may perhaps be due to the predominance of jute and tea in the Calcutta index number, and to the marked fluctuations in jute during that period. Omitting these two commodities from the Calcutta number, the fall between July, 1925, and February, 1926, was 5.3 points, a figure which corresponds very closely to the fall in Bombay prices, and in gold prices themselves, and reinforces the conclusion that such a fall is no part of an adjustment of prices to the higher exchange rate of 1s. 6d. In other words, it cannot be contended that there has been any adjustment in Indian prices since the Rupee touched 1s. 6d. gold in June, 1925.

The Course of Prices from December, 1922, to June, 1925.

94. I shall now examine the contention in Paragraph 187 of the Report that the fall in rupee prices in the first half of 1925 represents "the tendency of those prices to adjust themselves to the rise in exchange."

* (a) We had before us a statement from which I have taken the figures used by me in this note. The figures relied on by my colleagues are also based on the same statement. These are taken from the following sources:—

Dollar-Sterling Exchange rates from the London and Cambridge Economic Service Bulletin.

Rupee-Sterling Exchange rates from the average of the Daily Bombay quotations from the *Times*.

Rupee-Dollar Exchange rates from the Federal Reserve Bulletin.

United Kingdom wholesale prices from the Board of Trade Index Number. (1913=100).

United States of America wholesale prices from the Bureau of Labour Statistics. (1913=100).

Calcutta Index Number wholesale prices from the Indian Trade Journal. (31st July, 1914=100).

Bombay Index Number wholesale prices from the Labour Gazette. (July, 1914=100).

Starting from December, 1922, the point from which my colleagues begin their examination of the course of Indian prices, the gold parity of the Rupee rose from 95 in that month to 113 in June, 1925, the world gold prices were about the same level at the beginning and at the end of the period—to be exact, 156 and 157 respectively. On the rise of the gold parity of the Rupee during this period from 95 to 113, i.e., 19 per cent., adjustment of Indian prices to world prices, would in order to be complete have meant a corresponding fall of 19 per cent. in the Indian price level, i.e., a fall of 33·5 points in the Calcutta Index number which was 176 in December, 1922. The actual fall, however, was from 176 to 157, or only 19 points. This proves that the adjustment till June, 1925, was only partial. An examination of the Bombay Index figures lead to exactly the same conclusion. I have already explained, that the fall

(b) I give below an abstract from this Statement for the months referred to in the Report and by me.

INDIAN EXCHANGE AND PRICES,

Month.	Exchange.							
	Dollar—Sterling Exchange.		Rupee—Sterling Exchange.			Rupee—Dollar Exchange.		
	\$	% Gold Parity.	Sterling.	Gold.	% Gold Parity.	\$	% Gold Parity.	
July, 1922	4·45	91·5	15·67	s. d. 1 2½	90	28·89	88	
December, 1922	4·62	95·0	16·00	1 2½	95	30·65	94	
June, 1924	4·82	88·8	16·99	1 2½	94	30·49	94	
July, 1924	4·87	89·8	17·19	1 8½	96	31·25	96	
August, 1924	4·80	92·5	17·24	1 4	100	32·26	99	
June, 1925	4·88	90·9	18·05	1 6½	118	35·48	112	
February, 1926	4·86	99·2	18·19	—	114	—	—	
	Wholesale Price Indices.							
	U.S.A. 1918 = 100.		U.K. 1918 = 100.		Calcutta, 31st July, 1914 = 100.		Bombay, July, 1914 = 100.	
	Gold.	Sterling.	Gold.	Rupee.	Gold.	Rupee.	Gold.	
July, 1922	155	160	146	181	168	190	171	
December, 1922	156	156	148	178	155	175	164	
June, 1924	145	168	145	176	165	185	—	
July, 1924	147	168	146	179	179	184	—	
August, 1924	150	165	158	180	180	184	—	
June, 1925	157	158	158	157	177	160	—	
February, 1926	155	149	149	158	180	152	—	

(c) I have, however, not reduced the British and American figures to the July, 1914, base of the Indian Index numbers. For I am only concerned with the levels of the latter. Besides, as my colleagues have pointed out in para. 178 of the Report, "Index figures are more reliable in indicating the general trend of prices in each particular country than in comparing the relative levels of prices in two or more countries"; and, further, in para. 184 that the levels "may be influenced by factors (e.g. the base year chosen for the compilation of Index numbers) which are largely irrelevant for the present purpose, whereas the general trend of movement would remain the same whatever basis was chosen for the figures."

† 1913=100.

in rupee prices since June, 1925, was only a reflection of a corresponding world fall.

The Course of prices from July 1922 to February 1926.

95. I should, however, like to take the whole range of price movements from July, 1922, to February, 1926. The world price level was exactly the same, viz., 155 at the beginning and end of this period. The gold parity of the Rupee was 90 in July, 1922, and 114 in February, 1926, i.e., an increase of 27 per cent. The Calcutta Index Number was 181 in July, 1922, and 158 in February, 1926, i.e., a fall of 23 points. But on a 27 per cent. increase in the gold parity of the Rupee, a fall of 49 points was called for, to bring about complete adjustment of Indian to world prices. The actual fall, however, was 23 points. In other words, a fall of 26 points, or more than half the adjustment, was still to come in February, 1926, it being clear that recently "both rupee and world prices have been falling practically in unison," as stated in Paragraph 187 of the Report. Taking the average of the Calcutta and Bombay Index Numbers, instead of the Calcutta number alone, the July, 1922, average was 185, and that of February, 1926, 155. There has thus been a fall of only 30 points, against 50 (27 per cent. of 185) to be expected for full adjustment.

The Course of Sterling Prices.

96. It cannot, of course, be assumed that because the balance of adjustment has not yet taken place, India can permanently escape it. The experience of the United Kingdom shows that more or less complete adjustment must follow movements in exchange sooner or later. Taking the same period as I have in the preceding paragraph, the gold parity of Sterling stood at 91.5 in July, 1922, and almost at 100 (99.9) in February, 1926, i.e., a rise of 8.4. There has thus been an increase in the parity of the pound Sterling of 9.2 per cent. Sterling prices in July, 1922, stood at 160, and in February, 1926, at 149. I need not repeat that the world gold price level stood at 155 in July, 1922, and at the same figure in February, 1926. There has therefore been a fall of 11 points in Sterling prices, as against 14.7 (9.2 per cent. of 160) points that we should have to look for. And sterling prices have been falling further since February, 1926.

Conclusion as to Rupee Prices.

97. When it is remembered that commodity prices follow a movement in exchange, and that there is always a lag in Indian internal prices and a delayed adjustment to external factors, it must be admitted that the greater part of the general adjustment to 1s. 6d. by a fall, is still to come.

If Gold Prices Fall?

98. If the rupee is to be now stabilised at 1s. 6d. that fall will be aggravated if gold prices themselves fall from the present level. The evidence of the distinguished witnesses from America indicates that America is anxious to maintain the present level of gold prices; that a rise is certainly not to be looked for; if anything, a fall is not improbable. My colleagues themselves in Paragraph 36 of the Report refer to the apprehension of two distinguished experts (Professor Cassel and Mr. Joseph Kitchin) in this connection. If gold prices fall—and Indian prices must follow such a fall—India will be faced with a still bigger fall—the double effect of the operation of the present rate of 1s. 6d. and also the world fall. I cannot but contemplate such a prospect with very serious misgivings, for it will hit the Indian producer to an extent beyond his capacity to bear. In a word, it will hit, and hit very hard, four-fifths of the population of the country that exists on agriculture.

(II) WAGES.

99. The main classes of wage-earners to be considered are:—

- (a) The agricultural labourer.
- (b) The industrial labourer.
- (c) The middle-class and clerical workers.

Agricultural Wages.

100. (a) The latest figures available with regard to agricultural labour are in a Statement* submitted to us by Mr. Gennings, of the Labour Bureau in Bombay. He says that in the various Divisions of the Bombay Presidency the increase in the wages of labour in urban and rural areas between 1913 and 1925 has been as follows:—

	Per cent.
Field labourer, urban areas	121
Field labourer, rural areas	106
Ordinary labourer, urban areas	104
Ordinary labourer, rural areas	86
Skilled labourer, urban areas	116
Skilled labourer, rural areas	109

In the absence of any other data, these figures may be taken as representing the general agricultural wage level in India, there being no evidence of a decline in wages from any other part of the country.

Industrial Wages.

101. (b) Regarding the industrial labourer, the figures submitted to us are as follows:

Wages in the Bombay cotton mills are to-day 232 against 100 in 1914. In the Jute mills and the mines of Bengal, the figures are 150 against 100 in 1914. From no province in India did we receive even any suggestion that industrial wages had a tendency to fall.

102. It is instructive to examine how increases in wages have varied with the rise in prices since 1914. The following figures show the variations in the Jute Mills in Bengal.

Jute Mills in Bengal.

Date.	Index Numbers of Wholesale Prices in Calcutta (31st July, 1914=100).	Wages (1913=100).
May, 1918	173	110
April, 1919	190	110†
September, 1919	200	120
January, 1920	218	140
October, 1920	206	150
April, 1925	169	150

Regarding the Cotton Mills in Bombay, we have, unfortunately, no figures showing the increases given after 1914 and before 1921, when the full increase of 131 per cent. was given. I am not sure that the beginning of the increase in the wage of the cotton mill operative was not made before 1921. As, however, no figures for 1919 and 1920 are available, I am unable to give any definite comparison.

103. The above shows that the industrial labourer either did not press effectively for full compensation for the higher cost of living, or the employer delayed recognising the hardship of his employee. This

* Vide Appendix 49.

† See Appendix 99. (Letter from Messrs. T. Duff & Co.).

illustrates the lag in wages, and the very slight connection, over a considerable period of time, between variations in the cost of living and in wages.

104. But once an increase is given, be it in the permanent wage of the operative, or in the shape of a bonus varying with the earnings of the industry, the operative will not reconcile himself to any reduction in it on any account. A very pertinent example of this is what happened in Bombay when the bonus given to the operative in the cotton mills, because of the exceptional prosperity of the industry in 1921, was withdrawn in 1923, when that prosperity had definitely disappeared. The bonus was not an increase in wage, but was a special payment based on the profits of the year concerned. The equity of the withdrawal of the bonus could not be understood by the operative and a prolonged strike ensued. Similarly, in 1925, when the cotton mills in Bombay found that the cost of living had declined and they could not afford, owing to the mills having to work at a loss, to pay the full increase in wages sanctioned in 1921, there was another strike which lasted for 10 weeks, and came to an end only because the Government of India suspended the Cotton Excise Duty, thereby enabling employers to effect an approximately equal reduction in the cost of production, while maintaining the increase in wages. But for this, the strike would have been more prolonged.

105. These two examples show the inability of the Indian industrial wage earner to reconcile himself to any decrease in wage, even on the ground of the appreciation of the rupee in gold. What has happened in the case of the mill operative in Bombay has not been challenged as being likely to happen in the case of wage earners in any industry in any other part of India. It has been said that the cotton-mill owners in Bombay blundered in giving such a large increase as 131 per cent. over the pre-war level of wage, and hence Bombay's anxiety to get the lower ratio of exchange. At best, this is a most uncharitable view of the Bombay millowners' attitude on this question. It is not contended that the exchange should be fixed at 1s. 4d. to help them over what some regard as an extravagant increase given by them. The increases given in other industries would be equally incapable of reduction without a bitter struggle with labour in those industries.

106. The publication by the Department of Statistics of the Government of India, styled "Prices and Wages in India," gives changes of wages in selected industries up to 1922. Unfortunately, the necessity for retrenchment in 1923 led to the discontinuance of this publication, but none of the industries dealt with in the last (37th) issue appears to have effected a reduction in wages up to that year. The various industries selected are as follows:—

- Rice Mill, Rangoon.
- Jute Mill, Bengal.
- Tea Gardens, Assam.
- Cotton Mill, Madras.
- Engineering Workshop, United Provinces; (Some fall in 1922, owing to trade slump).
- Cotton Mill, Cawnpore; (Bonus subsequently stopped).
- Army Boot Factory, Cawnpore.
- Woollen Mill in Northern India; (Wages of some Mistries reduced owing to low production, and in other cases on engagement of new hands).
- Colliery, Bengal.
- Paper Mill, Bengal.

We have had no figures regarding the present wages in these industries, but my private enquiries have elicited the information that no reduction has been made since 1922 in any of them.

107. It has not been suggested by any official witness that the Government either intend or would find it feasible to make any reduction in the wages of their employees on the ground of the appreciation of the rupee

in relation to gold. With regard to their employees on the State railways, the rise in the average wages of the largest classes of labour in the North Western Railway Locomotive Workshops at Lahore was as follows:—

	1914 = 100.				1922.	
					Daily.	Monthly.
Fitters	218	245
Carpenters	181	204
Unskilled labourers	194	220

Clerical Wages.

108. (c) An official statement issued by the Bombay Labour Office in February 1926 gives the result of an investigation held into the wages of clerical workers in the City of Bombay in 1924. The averages given for each group into which the clerical service was divided for this purpose are as follows:—

	Percentage over 1914.
Railways and allied offices	78
Semi-Government Offices	81
Banks	79
Commercial Offices (about)	70

It has not been submitted to us by any witness that the rise of the rupee from under 1s. 4d. to 1s. 6d. during the last year has brought about any reduction in the wages of these workers.

Difficulty of Adjustment in Wages.

109. This confirms the general conclusion that the wages of manual labourers and of the lower ranks of clerical workers do not undergo a reduction in India, except when there is substantial unemployment or a redundant supply. The literate and comparatively educated classes seeking employment in clerical posts can reason, and perhaps reconcile themselves to changing conditions such as increase in the purchasing power of the rupee; but the class of labour which is illiterate, and therefore less capable of reasoning, is unable to reconcile itself to any reduction of wages, under any circumstances, without a bitter struggle.

Strain on Industry.

110. Industries generally in India are still suffering from the prevailing depression. An adjustment in wages to the 1s. 6d. basis, if it has to be enforced, will therefore entail a long and bitter struggle between Labour and Capital, with consequent disturbance in the economic organisation of the country. The desirability of avoiding such a strain on industry in any country is obvious. The anxiety of the Government to avoid having to reduce wages in factories and departments under their own control should be sufficient to convince them of the risk to which industrial development will be exposed if the adjustment of wages to the higher ratio is to be enforced.

Wages and Cost of Living.

111. It was contended by Sir Basil Blackett in his evidence before us that he recommended the ratio of 1s. 6d. in order to avoid having to face a demand for higher wages. If any reliance is to be placed on the cost of living index numbers it is seen that there is a margin between the existing Indian cost of living index number of 155, in March, 1926, and the rise of wages over the pre-war level. If the cost of living in India is likely to increase on a reversion to the 1s. 4d. ratio, at the most, it cannot exceed 12½ per cent. even assuming that adjustments to 1s. 6d. have fully taken place, and the wages earned by the three classes of labour referred to above show a margin to cover this, excepting in the case of the labourer in the jute mills and mines in Bengal. On the other hand, if internal prices have not adjusted themselves completely to the 1s. 6d. ratio, the rise in the cost of living, owing to the lower ratio of 1s. 4d.

being fixed, would not be as high as 12½ per cent. But there again, owing to the absence of convincing proof, one is unable to arrive at a definite percentage of the increase involved by the adoption of a 1s. 4d. ratio.

Wages and Provincial Finance.

112. In paragraph 210 of their report, my colleagues quote from a letter submitted to us by the Madras Government, in which they deprecate any change in the currency policy "which would result in a further rise in prices, rendering a revision of salaries again necessary, which would in turn lead to the levying of additional taxation." I presume that the Government of Madras mean that these results would follow as if the ratio was fixed at a figure lower than 1s. 6d. In the first place, I may point out that no other Provincial Government has put forward any apprehensions of this kind. Even the honourable Ministers of the Madras Government have not endorsed these apprehensions, having restricted their concurrence to another aspect only of the reference made to them (*). I have dealt above with the merits of these apprehensions. If the Indian Civil Service is included in the fears expressed, it has to be borne in mind that when the Royal Commission on the Superior Services, presided over by Lord Lee, submitted their report, exchange was well below 1s. 4d. gold, and the increases given on their recommendations were certainly not based on a rate of exchange higher than 1s. 4d. gold

Conclusion as to Wages.

113. It must therefore be admitted that no adjustment either in agricultural, industrial or clerical wages has taken place, and none would hereafter, without a struggle. It is clear that there has been no reduction so far from the level of wages in 1921, when the rupee was below 1s. 4d. gold.

Wages in the United Kingdom.

114. In sharp contrast to this state of things in India is the variation in the rates of wages of labour in the United Kingdom. The only wage index that I understand exists at present for the United Kingdom shows variations in the rates of wages as follows:—

		<i>Wages</i> (July, 1914 = 100).	<i>Ministry of Labour,</i> <i>Cost of Living Index</i> (percentage of pre-War).
1919—	January	206	220
	June	210	207
	December	226	225
1920—	January	229	230
	June	261	252
	December	276	265
1921—	January	277	251
	June	264	219
	December	223	192
1922—	January	217	188
	June	197	184
	December	178	178
1923—	January	177	177
	June	176	169
	December	173	177
1924—	January	173	179
	June	178½	170
	December	179	180
1925—	January	180	179
	June	181	173
	December	180	175
1926—	January to April (inclusive).	180	173—167

*Vide Appendix 66

Rates of wages of 11 classes of wage-earners, including those in sheltered and unsheltered industries are averaged in this index. (I am indebted to Professor A. L. Bowley, D.Sc., F.B.A., of the London School of Economics for these figures.)

The adjustment of wages to various factors, including exchange, is thus more or less automatic in the United Kingdom, and for all practical purposes wages are brought into line with the cost of living.

Foreign Competition.

115. Further, until adjustment is complete, a 1s. 6d. ratio presents the foreign manufacturer with an effective though indirect bounty of 12½ per cent., which will place a heavy strain on Indian industries nascent and established, and protected industries will consequently need a further 12½ per cent. countervailing protection, or assistance by subsidies.

(iii) STABILISATION AT 1s. 4d.

116. For these reasons I am unable to accept the proposal to legalise 1s. 6d. as the new standard of money payments in India, and recommend that the rupee should be stabilised at the rate which obtained for nearly 20 years, viz., 1s. 4d. to the rupee.

117. It might be asked why I recommend stabilisation at 1s. 4d. and at no other rate. I do so because I share the widely-held opinion that a country's standard of value should never be changed unless circumstances arise, permanent in their effects, compelling a change; unless, in other words, it is found that the ratio is absolutely unobtainable, or unobtainable after a fall. The period during which her "permanent ratio" was unobtainable, was shared by India with almost every other country in the world, and was the sequence of a world convulsion which affected them all. The Babington-Smith Committee recommended a change in India's legal ratio under abnormal conditions. Its recommendation was put into force when no other country had undertaken the settlement of its monetary problems. Had the 2s. ratio not been put on the Statute under the conditions of 1920, and had the 1s. 4d. ratio been left undisturbed when the fall in world prices took place, I am convinced that the probability is that it would have been naturally reached once more. The fall under 1s. 4d. would have been temporary, and the rate would have found its natural level again under the conditions of 1923 and 1924 at the latest, as, in fact, it actually did. With a ratio of 1s. 4d. on the Statute, there would have been no possibility of the pre-war parity being exceeded, as gold would have flowed in at that point. I am anxious that the country should now at least be freed from the effects of the error of judgment of 1919-20, and of the artificial measures taken subsequently as its corollary.

118. Advocating, as I do, stabilisation at 1s. 4d., on this fundamental consideration, I need hardly say that I cannot agree with those who protest that, in doing so, I am advocating a depreciation of the Indian currency. In fact, I urge that the artificial appreciation of the Rupee, represented by the 1s. 6d. rate, justified neither by India's circumstances nor by her requirements, should be eliminated and should in no way prejudice considerations determining her legal ratio.

(1) EFFECT ON THE FINANCE OF THE CENTRAL GOVERNMENT.

119. It is claimed that the loss involved to the Government of India Budget by stabilisation at 1s. 4d. as against 1s. 6d. will be as follows:—

- (1) Revenue (in rupees):
 - (1) General Budget: 3·16 crores.
 - (2) Railway Budget: 1·01 crores.
- (2) Capital Expenditure:
 - Railways: 1·68 crores.
 - Postal and Telegraph: 2½ lacs.
 - New Delhi: Rs. 63,000.

I cannot but regard the remarks made by Mr. McWatters in the first part of paragraph 4 of his Note under "Stabilisation of Exchange," as

exaggerated. The Railway Budget is separated from the General Budget for purposes of taxation, and would not count, except to the extent of the division of surplus profits between the Railway Reserve Fund and the General Budget. The most serious item to be considered is the alleged gain from 1s. 6d. of Rupees 3.16 crores in the General Budget. As against this, there is to be put an increase of 2.62 crores in Customs on stabilisation at 1s. 4d.* After allowing for a margin of 62 lacs in respect of the two assumptions made in that statement, there would remain only rupees 1.16 crores to fill the gap in the General Budget.

120. This does not take into account the decrease under bounties to certain industries given on the rise of exchange to 1s. 6d., and an increase in receipts under Income Tax and Corporation Tax, owing to industries being spared the disturbance incidental to 1s. 6d., bearing in mind in this connection that Joint Stock Companies in India pay very nearly 15 per cent. out of their profits under Income Tax and Corporation Tax. Furthermore, there has to be considered the general improvement in trade and agricultural prosperity, and the consequent increase in imports resulting in additional benefit to the Exchequer. It is suggested that there may be a lag in the receipt of increased revenue under Income Tax and Customs Duties. It is not clear why this lag should be for more than a few weeks, because the change in the ratio would automatically involve a corresponding change in rupee calculations for purposes of Customs Duties and Tariff valuation.

121. But the very fact that Sir Basil Blackett looks upon the increased revenue, accruing from a 1s. 6d. rate, as a tangible revenue, worth even naming for purposes of discussion of the ratio, shows that he is not convinced that adjustment to a 1s. 6d. rate is complete. Giving evidence before us in Calcutta, he said that after a number of years it made no difference to the Government what the rate of Exchange was. (Question 10,451.) He did not indicate what period he had in mind when he said this, but one may presume that he meant the period of non-adjustment. As long, therefore, as the adjustment is incomplete, this unearned increment in the Government of India Revenue Budget will be a tangible and visible asset, for it is clear that this gain from Exchange exists during the period of non-adjustment only, and will vanish when adjustment is complete. In the former case, the plea that the *de facto* rate, if changed to a lower rate would cause serious economic disturbance, does not stand. In the latter case, the gain to the Exchequer, besides being not a "decisive factor," is not a practical issue deserving consideration. The Government has, therefore, to admit that this argument for stabilisation at 1s. 6d. has no value. Moreover, during the period of non-adjustment, while there is a tangible gain to the Exchequer, some one pays for it. In the words of Mr. Robert Campbell and Sir John Muir, in their supplementary note in the Fowler Committee Report, "This advantage is not obtained without being paid for, and the question of who pays for it is not difficult to answer; it is the producer who has to accept so many fewer rupees for the produce he has to sell."

(2) EFFECT ON CONTRACTS.

122. It has been urged that a change to 1s. 4d. will prejudicially affect outstanding contracts of a short term character. On the other hand, it has been suggested that stabilisation at 1s. 6d. will similarly affect the bulk of other outstanding contracts, particularly, the indebtedness of the agriculturist to the moneylender, which is the largest amount involved in this consideration. The outstanding contracts can be divided as follows:—

(1) Contracts of a commercial nature, such as contracts to buy and sell goods, ordinarily liable to liquidation within a period of six to twelve months.

(2) Contracts to borrow on behalf of commercial and industrial concerns, which have a currency of 20 to 30 years, such as Debentures of Joint Stock companies.

* See Appendix 96. Mr. McWatters' further Statement.

(3) Contracts entered into by the agriculturist of India, who is notorious for his continuous borrowing from father to son, borrowing which, unfortunately, is rarely repaid, and where both the lender and the borrower are happy if interest only is regularly paid either monthly or yearly as the arrangement may be.

Commercial Contracts.

123. Regarding (1), it is acknowledged that for all commercial transactions, exchange can be covered for a period of 12 months ahead. If therefore the importer in India elected at any time to keep his exchange open against some contracts to buy for delivery within the following 12 months, one need hardly consider his case. Such a person elected to speculate in exchange, and if he suffers, the fault cannot be anybody else's but his own. Further, it has been widely known all over India since July 1924 that the existing statutory rate of 2s. to the rupee had to be changed for a more effective ratio, and no ordinarily careful person would have been justified in leaving his contracts open, or entering into contracts where he could not have covered his exchange.

124. Speaking in the Assembly on the 1st of March 1921, Sir Malcolm Hailey, then Finance Minister, explaining that the Government were not responsible for the losses of those who had traded, counting on the 2s. ratio being maintained, said:—

“But I would ask the House to remember that I definitely told the Legislative Council last year that it was impossible to say what variations might take place in the rupee-sterling exchange throughout the year. Ordinary commercial prudence should have led merchants to cover their exchange.”

125. If the Government of India had justification for what Sir Malcolm Hailey said in 1921 with reference to a rate which was put on the Statute Book, and to maintain which the Government spent such a colossal amount of India's reserves, there is hardly anything to be said for a rate which is neither statutory, nor has the weight of official indication*; for, indeed, if there was an impression that the Government wanted 1s. 6d. it was known that the Indian public were against changing the permanent ratio of India unless convincing proofs could be adduced.

Industrial and Commercial Borrowings.

126. The industrial and commercial corporations borrowing over a period of 20 or 30 years would not be prejudicially affected by having to meet their obligations at the gold value of the rupee at 1s. 4d. if they entered into their obligations before 1917. It is only those who have had to borrow since 1917 who would be affected by the ratio of 1s. 4d. No figures are available as to the numbers or amounts thus involved, but in any case they cannot be very large. It must be admitted that those who borrowed when Exchange was unpegged and fluctuated between 1s. 4d. and 2s. 10½d. and from there down to 1s. 3¼d. to the 1s. 6d. of to-day, would sustain some unforeseen loss, or profit, according to their operations. But the Government resisted any claim from the commercial community affected by their inability to maintain the ratio at 2s.; and the losses of persons adversely affected by a revision to the ratio best suited to the country's requirements would only be met by them with an expression of sympathy for the misfortunes of such people, and nothing more. These fluctuations perhaps were unavoidable up to a certain point during the aftermath of the War, and the best that can be done by us is to decide as to who would be most injuriously affected by the ratio recommended, and whether they can be saved from its effects.

* *Vide* Sir Basil Blackett's answers in the Assembly, 19th September 1924, Vol. IV : No. 56, page 3812.

The Agricultural Indebtedness.

127. Looked at from this point of view, the indebtedness of the Indian agriculturist and the masses demands serious consideration. Mr. M. L. Darling, I.C.S., of the Punjab, estimates that the indebtedness of this class, including even the prosperous canal agriculturist in the Punjab, is over 600 crores of rupees.* (It is probably another 200 crores on the Indian States. As the rate of Exchange between 1900 and 1917 was around about 1s. 4d., it is only right to assume that most of this debt of 800 crores was contracted when the rupee was 1s. 4d. gold. Now to put on the statute book 1s. 6d. gold would practically mean putting a burden of 12½ per cent. on these borrowers, and this is a class whose contracts ought to come in for full consideration in any decision to stabilise the rupee. Under the heading of Contracts, therefore, the higher figure of 1s. 6d. has little to recommend it, and very much against it.

(3) STABILITY OF A 1s. 6d. RATIO.

128. Another important consideration is whether the 1s. 6d. ratio is as easy to maintain as 1s. 4d. Officials of the Government of India have all maintained that in their opinion Government have the resources to maintain exchange at 1s. 6d. Mr. Kisch of the India Office, giving evidence, agreed in this, and several retired officials of the Government of India have supported this view. On the other hand, the Indian Section of the London Chamber of Commerce have pointed out that India has had during the last five years successively prosperous monsoons, and it must not be overlooked that India is liable to bad monsoons at intervals, and has had experience in the past of two and even three consecutive bad monsoons. Under such circumstances, the question of the possibility of maintaining the rupee at the higher ratio of 1s. 6d. is a matter of serious consideration. But even granting that the Government of India have at the moment resources enough to support Exchange at 1s. 6d., the question we have to decide is whether it is necessary to fix a ratio that would require larger resources to maintain, if the fixing of such a higher ratio can be avoided. None can say that the Government of India would not require larger reserves to maintain Exchange at 1s. 6d. than at 1s. 4d.; in fact, a little lull in the export trade from March, 1926, necessitated resort to deflation in India to the extent of rupees 8 crores to maintain Exchange, and following the first deflation of 3 crores, an announcement that the Government would sell Reverse Councils at 1s. 5½d. The very fact that a slight lull in the export trade necessitated this support, shows that 1s. 6d. cannot be looked upon as so easy to maintain as 1s. 4d. has proved to be between 1899 and 1914. Even granting that in the first year of an unfavourable balance of trade, the Government can maintain 1s. 6d. by selling Reverse Councils, should such a risk not be minimised, by adopting the lower ratio of 1s. 4d. which necessitated administrative support by sale of Reverse Councils only during two periods of extraordinary occurrence, not in India, but abroad?

129. The occasions when Reverse Councils had to be sold, between 1899 and 1924, are as under:—

	£
In 1907-1908-1909, total sales of Reverses	8,058,000
In 1909-1910 " " " "	156,000
In 1914-15 " " " "	8,707,000
In 1915-16 " " " "	4,893,000
In 1918-19 " " " "	5,315,000
In 1919-20 and 1900-21 total sales of Reserves	55,532,000

* Page 17 "The Punjab Peasant in Prosperity and Debt."

It is clear that the 1907 to 1910 sales were due to the American crisis, and the 1914 to 1921 to the effects and the sequence of the War, and mismanagement of Indian Currency on the Babington-Smith Committee's majority recommendations. Therefore they were not Indian conditions which disturbed the statutory ratio of 1s. 4d., but external forces over which India had no control, and which could not have been foreseen or avoided. In the present case it is difficult, if not impossible, to ascertain to what extent the risk to which the freaks of nature in Indian climatology and an unfavourable balance of trade would expose the resources of the Government of India to the point of depletion. Why take any risk in this connection if it can be avoided? I consider that by fixing the ratio at 1s. 4d. this very substantial risk, which if not perceptible at the moment, is certainly not fanciful, can and should be appreciably diminished.

(4) MELTING POINT OF THE RUPEE.

130. It has been contended that with a 1s. 6d. ratio the melting point of the rupee will be at a higher figure (48d.) than with 1s. 4d. (43d.), and that this constitutes an advantage on the side of the 1s. 6d. rate. But we recommend the issue of one rupee notes, convertible only into legal tender money and gold, and not into silver rupees, as a precaution against a rise in silver prices. The evidence of the American witnesses in this connection is illuminating, and indicates that inasmuch as silver is now mined mainly as a by-product of various ores, the anxiety of silver holders should be rather to sell it at or near the present price of 30d. than to expect a rise. But should circumstances change in the future, Professor Sprague put it well when he said that if silver rose to or over 48d., there would be nothing to prevent it from going to 56d. or 66d. The melting point of the rupee as expressed in the price of bar silver therefore ceases to be a consideration in deciding between a ratio of 1s. 6d. or 1s. 4d.

(5) CURRENCY RESERVES.

131. A revaluation of the Reserves consequent upon the adoption of a ratio of 1s. 4d. would make the position of the Central Bank easier, since the *ad hoc* securities in the Paper Currency Reserve would be reduced to the extent of about Rs. 14 crores. It will be seen from Paragraph 136 that my colleagues have recommended that about Rs. 57 crores of created securities now in the Reserve should be converted during the course of the next ten years into marketable securities. The valuation of these securities at 1s. 4d. instead of 1s. 6d. would reduce by 14 crores the amount of securities thus to be replaced and *pro tanto* relieve the Government of the necessity of borrowing in the open market.

(6) OTHER ARGUMENTS FOR 1s. 6d. EXAMINED.

Adjustments and the course of foreign trade.

132. It is claimed by my colleagues (para. 190) that if adjustments to the 1s. 6d. rate had not taken place, such non-adjustment would be reflected in the foreign trade of India, and either exports or imports would be subjected to a handicap. But, they say, "the general trade of the country, taken as a whole, shows no signs of the imposition of such a handicap."

133. My colleagues admit that India has had four good years in succession. Bearing in mind the low holding power of the grower in India, it is no proof of the suitability of the existing rate of exchange that exports have continued, and have not shown a falling off since the higher rate has been in operation. The bulk of Indian exports consists of raw materials. If the crops are grown, they have to be sold before the next

harvest, and this must be done whatever the rate, as long as there is any demand for them in the world markets.

134. My colleagues from India will not overlook the constant complaint that has prevailed there since 1922-23, that trade generally has been slack, especially the import trade. In spite of four good years and lower prices for imports, the Indian consumer has kept out of the market for imported articles beyond his imperative requirements. Even in Lancashire I understand that the feeling has lately been gathering that non-adjustment to a higher Indian exchange brings in its train a reduction in the purchasing power of the Indian masses.

135. My own conclusion is that no such inference as my colleagues draw from the course of India's foreign trade is warranted. If anything, the continued slack demand for imports is to be regarded as an indication of the lower purchasing power of the masses, due to non-adjustment to the 1s. 6d. rate.

Absorption of gold.

136. In Paragraph 203, my colleagues refer to the argument advanced by some witnesses that the higher rupee price of gold at 1s. 4d. as compared with 1s. 6d. would check the absorption of gold by India for social or alleged hoarding purposes. They point out that when adjustments to 1s. 6d. are complete, the real cost of a *tola* of gold, sold at Rs.21.3.10, will be as great as with 1s. 4d. at which its price would be about Rs.24.8.0. They therefore admit that till adjustments are complete the rupee cost of gold would be lower relatively to other commodities, and gold would therefore be more attractive to buyers in India. It is not, however, a question of lowering the exchange rate to check the absorption of gold for the next few years, but of the desirability of not raising the exchange rate from the level which, on other and vital considerations, has proved suitable to Indian conditions.

Alleged effects of a reversion to 1s. 4d.

137. In Paragraph 206, my colleagues apprehend a profound disturbance in economic conditions throughout India by restoring the pre-war ratio of 1s. 4d. This is an apprehension which must be fully examined. The feared rise in prices of exportable raw materials cannot be looked upon as a direct hardship to any one in India. A rise in rupee prices of imported articles may be a source of anxiety to those who manufacture for import into India. But even these manufacturers now realise that a higher rupee price would be made up for by the better purchasing power of India as a whole. The extent to which the 1s. 4d. ratio will entail a rise in prices of articles grown and consumed in India is the vital consideration in this argument of my colleagues. They apprehend a rise in the price of these articles to the full extent of 12½ per cent. because they conclude that internal prices are "substantially" adjusted to the 1s. 6d. rate. For reasons already stated, I do not accept this conclusion. I have shown that the index numbers used by them lead instead to the conclusion that adjustment to 1s. 6d. is far from complete and that the major part of it is still to come. I therefore conclude that such disturbance as may ensue from the fixation of the lower ratio will produce a very insignificant disturbance in economic conditions, injurious to but a few, if any at all. On the other hand, insistence on stabilisation at 1s. 6d., will not only produce, but, will prolong, the profound disturbance of economic conditions throughout India, which is just beginning to be perceived, and the worst effects of which are still to come.

138. My colleagues apprehend that the lower ratio would severely hit consumers generally and the poorer paid members of the literate classes. If 79 per cent. of the people of India subsist on agriculture, it is difficult

to understand the concentration of my colleagues on the interests of the other 21 per cent. who live on the production of this class. I am convinced that the adjustment to 1s. 6d. can at best be regarded as having just started. The official figures referred to in Paragraph 108 above show that the wages of the clerical classes are not on the border line of the present cost of living and the apprehension of my colleagues is, if I may say so, an exaggerated one.

139. Regarding their plea in the interests of labour, I expected that after the experience of labour troubles in Europe lately, they would have hesitated to put this apprehension of theirs in the way they have done. It may be that with the fixation of the 1s. 4d. rate some industries may have to raise their wages if they are compelled to give their labour an increase corresponding to the index number of the cost of living.

140. But most of the industries in India, including agriculture, have been paying, since 1921, a wage which is proportionately higher now than the increase in the cost of living. A reduction in wages in India is, as said previously, not possible without serious conflict between the employer and the employee. Unless this conflict is to be forced on India, and agriculture made less attractive than it has been hitherto, the argument advanced by my colleagues cannot be accepted.

141. To my mind, in the conditions prevalent in India, both equity and expediency dictate that the monetary ratio most suitable to Indian conditions should be restored as the permanent ratio. Any partial consideration of the problem cannot but be prejudice; but statesmanship requires fullest consideration of all aspects of the issues involved in this subject, and demands, in the words of the Finance Member of the Government of India, that the ratio be fixed "at whatever figure may be most truly in the interests, not of this or that section, not of the producer or the consumer or the taxpayer, considered in isolation, but in the best interests of India as a whole." As far as labour is concerned, there should not be the least doubt that the correct view is to ensure continuity of employment and the least possible disturbance to the legitimate interests of those who employ it.

142. In the latter part of their Paragraph 206, my colleagues refer to the inconvenience that would be caused to those who deal in the Exchange Market. This, to a certain extent, would be inevitable, if the arbitrary decision of the Executive is not endorsed on the several important grounds that I have already dealt with.

143. Once the importance of the issues involved is fully realised, it can safely be said that the responsibility for such disturbance as is now inevitable must lie with the Government of India who chose to go past the pre-war ratio, and made every effort to put India on to a ratio unsuitable to her as a permanent one.

(7) SANCTITY OF A RATIO ONCE ESTABLISHED.

144. Finally, there is the sanctity of the standard of money payments. The Fowler Committee's recommendations in regard to the standard and the ratio are perfectly clear. That ratio was set down on the Statute Book even if their recommendations in regard to the standard or the Reserves were departed from in practice. Since 1893 the rupee has always been a token coin, representing by law till 1920 7·53344 grains of gold. That the rupee has been, and is, a token coin, is admitted, both by the Chamberlain Commission and by the present Finance Member, the standard unit till 1920 being 7·53344 grains of gold. All values have been measured in terms of that standard. An attempt was made in

* * Par 46. Budget Speech of the Finance Member, Government of India, February 28, 1925.

1920 to change that standard to 11'30016 grains of gold, and although this was legalised, for all practical purposes it has never prevailed.

145. A standard being what it is, to measure weights or lengths or values with, it stands to reason that, once laid down by law, it cannot be lightly changed. As any change in the standard of weight or length, would constitute an injustice, so would any change in the standard of value. The British sovereign, as the standard unit value of the country must always contain 113 grains of gold. Any reduction or increase of this gold content would constitute an injustice on debtors and creditors.

146. It is different with a token coin. Any debasement of the shilling, for instance, by making it smaller or of a lesser silver content, would not affect anyone; 20s. would represent the sovereign. The rupee is a token coin, and its intrinsic value does not matter, but it cannot pass for more or less than 7'53344 grains of gold without constituting a currency fraud. The giver of a promissory note of 100 rupees bound himself to give 753 grains of gold. Any enactment laying down a higher gold value for the rupee would oblige him to give more gold than he undertook to pay, and than the holder was entitled to receive. Herein lies the injustice of a change in the ratio.

CONCLUSION AS TO THE RATIO.

Claim of the debtor class.

147. A change to 1s. 6d. hits the large bulk of the debtor class, to the benefit of the creditor class. I cannot conceive of any valid or moral reasons for a step calculated to give the latter an unearned increment at the expense of the former. In India, perhaps more than anywhere else, the debtor class is the largest and the neediest, for whom the Government has always evinced concern and solicitude. What unavoidable reason, then, is there to hit this class? Throughout the course of our enquiries I have not heard of a single argument, which I can reasonably accept as sound, even pointing to the inevitability, to say nothing of the justifiability, of imposing an additional burden on a class already overburdened.

Sustainability of 1s. 4d.

148. A ratio moreover that stood for 20 years even during the American crisis, till 1917, and was only disturbed as a result of the War, in common with the ratios of other countries in the world, cannot lightly be said to be a ratio that is unnatural to the Indian currency system. No change is therefore called for simply because for the last ten months the Government of India have managed by artificial measures to keep the value of the rupee round about 1s. 6d., in accordance with a preconceived policy. In brief, exchange has never been allowed in recent years to find its own natural level; it has been regulated by the series of operations which I have already dealt with.

Danger of tampering with the standard.

149. There is another aspect of the matter that one cannot afford to ignore. Any tampering with the standard of value is bound to have serious political effects in India, and to cause distrust in its currency system and the financial administration of the country. A change in the standard is bound to shake the confidence of the people, who will feel that they have been wronged by it, that it has been lightly changed, and that it may lightly be changed again, for if a long established rate (I shall not call 1s. 4d. the legal rate after the enactment of 1920) is deliberately changed, what is there to prevent another change being made again at any time in the future? Can the public rightly be led to believe that any contracts that they may make on the ratio now recommended by my

colleagues will not be subjected in future years to yet another change? Herein will arise the distrust of the people, not only in their own currency and financial system, but in their Government. Indeed, the political consequences of a change in the ratio cannot be contemplated without the most serious misgivings. Why invite such consequences and such mistrust when the "permanent rate" is still within reach, and that too with very slight disturbance, if any, to existing conditions? No other country has adopted a rate of exchange higher than its pre-war rate. Even Great Britain did not change her standard when the £ sterling dropped to 3'38. Nothing would have been easier than to have then enacted that the £ sterling should represent 15s. instead of 20s.; but it was a question of Britain's credit in the eyes of the rest of the world, and the question of the equity of the contracts based on the continued existence of the sovereign containing no more and no less than 113 grains of gold. Why should India be asked to appreciate her ratio when no other country, even in the most prosperous circumstances, has considered it just or advisable, or even expedient to do so?

The "permanent rate."

150. The Fowler Committee definitely recommended 1s. 4d. as the "permanent rate," and a permanent rate should only be changed under absolute and unavoidable necessity. Other countries have made great sacrifices to return to their pre-war ratios, which is a proof of the sanctity attaching to them. But in India it is not a question of making a great sacrifice to regain her "permanent rate." It is, at worst, a question of balancing the disturbance which may be caused by a reversion to 1s. 4d., and an adoption of 1s. 6d. Even if it is granted that the disturbance involved in the former would be as great as the disturbance still to come with an adoption of a 1s. 6d. ratio—which is the utmost that could be conceded—then the balance must be weighed, for the reasons stated above, in favour of the 1s. 4d. ratio as being the "permanent rate" established on the authority of the Fowler Committee.

Vital importance of the ratio.

151. I look upon the question of the ratio in this Report as being no less important than the question of the standard to be adopted for the Indian Currency System. I am convinced that if the absolute necessity of the free inflow of gold, which I have emphasised, is recognised, and steps taken to ensure it, the gold bullion standard proposed will be the correct one, and the likelihood of its breaking down under the strain of any convulsions in the future will be as remote as it can reasonably be. But I have very grave apprehensions that if the recommendation of my colleagues to stabilise the rupee at 1s. 6d. is accepted and acted upon, India will be faced during the next few years with a disturbance in her economic organisation, the magnitude of which is difficult to estimate, but the consequences of which may not only hamper her economic development, but may even prove disastrous. Such a disturbance and its consequences my colleagues do not foresee to-day. But the possibility of their occurring cannot be ignored. Until adjustment is complete, agriculture threatens to become unattractive and less remunerative than it is to-day, and industries will have to undergo a painful process of adjustment, unnatural, unwarranted and avoidable—an adjustment which will be much to their cost, and affect not only their stability and their progress, but in certain cases, their very existence. And should Nature have in store for India a couple of lean years after the four good harvests that we have had, during the period of forced adjustment to a rate of 1s. 6d., the steps that the Currency Authority will have to take to maintain exchange at this rate may deplete the gold resources of the country to an extent that may seriously shake the confidence of her people in the currency system recommended.

Why take any risk?

152. With extraordinary good luck the country may find it possible to avoid all these dangers. But why incur the risk at all? Why gamble on uncertain factors if India's natural ratio of 1s. 4d., that stood for 20 years unshaken by the crisis of 1907-1908, and shaken only after 1917 by a world convulsion, and then, too, mainly because of the embargo on the import of gold, is still within India's reach?

Unparalleled Procedure.

153. The facts and figures that I have stated, and the records from which I have quoted, conclusively show that the Executive had made up their minds to work up to a 1s. 8d. ratio long before this Commission was appointed to examine the question. Indeed, they have presented to us the issue in this regard as a "*fait accompli*," achieved by them, not having hesitated by manipulation to keep up the rate even while we were in Session. I cannot conceive of any parallel to such a procedure in any country.

PURSHOTAMDAS THAKURDAS.



East India (Civil Services in India)

**Report of the
Royal Commission on the
Superior Civil Services
in India.**

Dated 27th March, 1924.

Presented to Parliament by Command of His Majesty.



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THE ROYAL COMMISSION.

GEORGE R.I.

GEORGE THE FIFTH, by the Grace of God, of the United Kingdom of Great Britain and Ireland and of the British Dominions beyond the Seas King, Defender of the Faith, Emperor of India, to

Our Right Trusty and Well-beloved Cousin and Counsellor Arthur Hamilton, Viscount Lee of Fareham, Knight Grand Cross of Our Most Excellent Order of the British Empire, Knight Commander of Our Most Honourable Order of the Bath; and

Our Trusty and Well-beloved:—

Sir Reginald Henry Craddock, Knight Grand Commander of Our Most Eminent Order of the Indian Empire, Knight Commander of Our Most Exalted Order of the Star of India, late Lieutenant-Governor of Burma;

Sir Cyril Jackson, Knight Commander of Our Most Excellent Order of the British Empire;

*Sir Chimanlal Harilal Setalvad, Knight, Member of the Executive Council of the Governor of Bombay;

Khan Bahadur Sir Muhammad Habibullah, Sahib Bahadur, Knight, Companion of Our Most Eminent Order of the Indian Empire, Member of the Executive Council of the Governor of Madras;

Rai Bahadur Hari Kishan Kaul, Companion of Our Most Exalted Order of the Star of India, Companion of Our Most Eminent Order of the Indian Empire, Commissioner, Punjab;

David Petrie, Esquire, Companion of Our Most Eminent Order of the Indian Empire, Commander of the Royal Victorian Order, Commander of Our Most Excellent Order of the British Empire, Indian Police Service;

Bhupendranath Basu, Esquire, Member of the Council of India; and

Reginald Coupland, Esquire, Beit Professor of Colonial History in Our University of Oxford.

Greeting!

Whereas, having regard to the necessity for maintaining a standard of administration in conformity with the responsibilities of the Crown for the Government of India, and to the declared policy of Parliament in respect of the increasing association of Indians in every branch of the administration, and in view of the experience now gained of the operation of the system of government established by the Government of India Act in respect of the superior Civil Services in India, We have deemed it expedient that a Commission should forthwith issue to enquire into:—

- (1) The organisation and general conditions of service, financial and otherwise, of those Services;
- (2) The possibility of transferring immediately or gradually any of their present duties and functions to services constituted on a provincial basis;

* Sir Chimanlal Setalvad resigned his membership of the Commission on 22nd Oct., 1923, and his place was filled by the appointment, on 26th Oct., 1923, of Mr. N. M. Samarth.

- (3) The recruitment of Europeans and Indians respectively for which provision should be made under the Constitution established by the said Act, and the best methods of ensuring and maintaining such recruitment ; and to make recommendations :

Now know ye, that We, reposing great trust and confidence in your knowledge and ability, have authorised and appointed and do by these Presents authorise and appoint you, the said Arthur Hamilton, Viscount Lee of Fareham (Chairman) ; Sir Reginald Henry Craddock ; Sir Cyril Jackson ; Sir Chimanlal Harilal Setalvad ; Sir Muhammad Habibullah ; Hari Kishan Kaul ; David Petrie, Bhupendranath Basu and Reginald Coupland to be Our Commissioners for the purposes of the said enquiry.

And for the better effecting the purposes of this Our Commission, We do by these Presents give and grant unto you, or any three or more of you, full power, at any place in Our said United Kingdom of Great Britain and Ireland, or in India, to call before you such persons as you shall judge likely to afford you any information upon the subject of this Our Commission ; and also, whether in Our said United Kingdom, or in India, to call for information in writing ; to call for, have access to and examine all such books, documents, registers and records as may afford you the fullest information on the subject, and to enquire of and concerning the premises by all other lawful ways and means whatsoever.

And We do by these Presents authorise and empower you, or any one or more of you, to visit and personally inspect such places as you may deem it expedient so to inspect for the more effectual carrying out of the purposes aforesaid.

And We do by these Presents will and ordain that this Our Commission shall continue in full force and virtue, and that you, Our said Commissioners, or any three or more of you, may from time to time proceed in the execution thereof, and of every matter and thing therein contained, although the same be not continued from time to time by adjournment.

And We do further ordain that you, or any three or more of you, have liberty to report your proceedings under this Our Commission from time to time, if you shall judge it expedient so to do.

And Our further will and pleasure is that you do, with as little delay as possible, report to Us under your hands and seals, or under the hands and seals of any three or more of you, your opinion upon the matters herein submitted for your consideration.

Given at Our Court at *Saint James's*, the fifteenth day of June, one thousand nine hundred and twenty-three, in the fourteenth year of Our Reign.

By His Majesty's Command,

W. C. Bridgeman.

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ROYAL COMMISSION ON THE SUPERIOR
CIVIL SERVICES IN INDIA.

REPORT.

TO THE KING'S MOST EXCELLENT MAJESTY.

MAY IT PLEASE YOUR MAJESTY,

We, the undersigned Commissioners having been appointed to enquire into :—

- (i) The organisation and general conditions of service, financial and otherwise, of the superior Civil Services in India ;
- (ii) The possibility of transferring immediately or gradually any of their present duties and functions to services constituted on a provincial basis ;
- (iii) The recruitment of Europeans and Indians respectively for which provision should be made under the Constitution established by the Government of India Act, and the best methods of ensuring and maintaining such recruitment ;

humbly submit to Your Majesty the following Report :—

1. In considering the matters referred to us, we have throughout borne in mind the terms of our Warrant of Appointment which laid stress on "the necessity for maintaining a standard of administration in conformity with the responsibilities of the Crown for the government of India, and the declared policy of Parliament in respect of the increasing association of Indians in every branch of the administration, and the experience now gained of the operation of the system of government established by the Government of India Act in respect of the superior Civil Services in India."

2. We assembled in India, at Delhi, on 4th November, 1923, and addressed ourselves in the first instance to the task of revising, and finally approving, the terms of the provisional questionnaires which had been drawn up by the Chairman and which we had determined should be the principal method employed to ascertain the trend of representative official and non-official opinion on the subjects comprised within our terms of reference. Copies of

these questionnaires, as approved and issued, are printed as Appendix I to this Report. The main distribution of these questionnaires was undertaken on our behalf by Local Governments. They were also published widely in the Press. Some 1,300 replies were forwarded to us direct by individuals and associations scattered throughout the length and breadth of India, in addition to about 100 from Great Britain, the latter on the basis of the provisional questionnaires issued by the Chairman in England. Of these witnesses 411, official and non-official, have been further examined orally, more than half of them in private in accordance with their request.

3. After preliminary and informal conferences at Delhi with the Secretaries to the Government of India in the Home, Legislative, Army, Foreign, Political, Industries and Labour, Education and Health and Lands Departments, and with other officers, we proceeded successively to Allahabad, Bombay, Madras, Calcutta, Patna and Lahore for the purpose of supplementing the evidence contained in the written replies to our questionnaires by the oral examination of selected witnesses, and by private and informal conferences with Provincial Governments. In the course of these travels the distance covered by the Commission approximated to 6,500 miles. Pressure of time, and considerations of economy, led us to decide not to visit the Central Provinces, Burma, Assam, the North-West Frontier Province or Baluchistan, but arrangements were made by which witnesses from the Central Provinces were heard at Bombay, those from Burma and Assam at Calcutta, and those from the North-West Frontier Province at Lahore, while the written statements submitted by witnesses from Baluchistan proved sufficient for our purpose so far as that administration was concerned.

4. We returned to Delhi in February, for the purpose of recording evidence from a number of officials and heads of Departments in the Central Services serving under the Government of India, including the Director-General of Posts and Telegraphs, the Chief Commissioner of Railways, a Member of the Central Board of Revenue and the Auditor-General, and from a number of officers of All-India Services working at the headquarters of the Government of India, including the Director-General of the Indian Medical Service, the Inspector-General of Forests, the Agricultural Adviser and the Educational Commissioner. Subsequently we proceeded to Mount Abu, Rajputana, for the consideration of our present Report which we concluded there on 27th March.

5. We desire to take this opportunity of recording our appreciation of the trouble and labour expended by the recipients of questionnaires in the preparation of their written replies. The considered and exhaustive nature of these documents has been of the greatest possible assistance to us in our deliberations.

We gladly record also, our obligations to the Government of India and to the various Local Governments for their courtesy in placing office and other accommodation at our disposal, and generally facilitating the prosecution of our enquiries.

CHAPTER I.

THE GENESIS OF THE COMMISSION.

6. The great majority of Government officials in India are divided into classes corresponding to differences in the responsibility of the work performed and the qualifications required. These classes are organised for the most part as "Services." This Commission is concerned only with the highest or the Superior Civil Services dealing with each branch of the administration. The second class of Services is usually known as "provincial"; the third class as "subordinate"; and with these the Commission is not directly concerned.

The Superior Civil Services themselves are divided into two classes, according as they administer subjects which are under the direct management of the Central Government in India or subjects which are primarily controlled by the Provincial Governments. The former class consists of the Central Services, which deal, *inter alia*, with the Indian States and frontier affairs, the administration of the State Railways, with Posts and Telegraphs, Customs, Audit and Accounts, and with scientific or technical departments such as the Survey of India, the Geological Survey and the Archæological Department. The other class which works primarily under the Provincial Governments comprises the All-India Services. The term may at first sight appear inappropriate to Services which are essentially concerned with administration in the Provinces. It marks the fact, however, that these Services are recruited by the Secretary of State, for work in any part of India, and that each, though scattered through the Provinces, forms one Service with one basis of remuneration. Though an officer of an All-India Service is assigned to and as a rule remains in one Province throughout his career, he may be transferred to another Province; while a certain number of officers are taken by the Government of India from the Provinces to assist in the discharge of its central functions. Services of this nature differ essentially from the Provincial Services which are recruited in a Province solely for provincial work, and it is to mark this distinction that these Services have been given the title of "All-India." As the main part of the actual administration of India is carried out by the Provincial Governments, it follows that the All-India Services are the main executive

agents of the administration throughout the country. The following table shows the sanctioned strength and actual numbers of these Services on 1st January, 1924 :—

The All-India Services.

	<i>Sanctioned Strength.</i>	<i>Actual Numbers.</i>
Indian Civil Service	1,350	1,290
Indian Police Service	732	739
Indian Forest Service	399	348
Indian Educational Service—		
(Men)	379	309
(Women)	42	36
Indian Agricultural Service	157	109
Indian Veterinary Service	54	38
Indian Forest Engineering Service	18	17
Indian Medical Service (Civil)	420	373
Indian Service of Engineers	728	716
Total	4,279	3,975

The Islington Commission.

7. The Civil Services in India came under detailed review by the Royal Commission on the Public Services presided over by Lord Islington (generally known as the Islington Commission) which assembled on the 31st December, 1912, and signed its Report on the 14th August, 1915. It was not the task of that Commission to attempt to alter the structure of administration which it found in existence. Its labours were directed merely to making such adaptations in the composition of the Services, and their organisation or financial conditions, as the circumstances of the time required. Apart from numerous recommendations directed to improving what may be called the technical organisation and efficiency of the Services, the Commission devoted itself mainly to exploring the possibilities of a wider employment of Indians in the Superior Services and to an examination of the conditions of service, particularly on their financial side.

8. The Report of the Islington Commission was signed in August, 1915, when the war had been in progress for a year. The Governments, both in India and in England, were fully occupied with the prosecution of the war. Consequently the consideration of the proposals of the Commission was deferred and the Report was not published till the 26th January, 1917. Before the Report could be taken into serious consideration the facts on which it was based had materially changed. On 20th August, 1917, the Secretary of State announced in the House of

Commons that the policy of His Majesty's Government was that of "the increasing association of Indians in every branch of the administration and the gradual development of self-governing institutions with a view to the progressive realisation of responsible government in India as an integral part of the British Empire." Further, the war had in India, as elsewhere throughout the world, produced an upheaval of prices which had greatly increased the cost of living, and this factor had obviously not been taken into account in the rates of pay which the Commission proposed.

There were thus three new factors in the situation: (a) the special stress laid on the increasing association of Indians in every branch of the administration; (b) the new policy directed towards the progressive realisation of responsible government; (c) the marked change in the cost of living. It was easier to recognise these new factors than to devise measures to meet them. The Government of India, in their elaborate examination of the recommendations of the Islington Commission, and the Secretary of State in the orders which he passed, clearly endeavoured to give due weight to the changed and changing conditions. It was, however, impossible to produce a scheme which would fit the new circumstances without a complete re-examination of the problem, and the orders which were passed during the course of the years 1919-20, on the recommendations of the Islington Commission, suffered inevitably from having been based on an investigation which subsequent events were rendering obsolete.

The Montagu-Chelmsford Enquiry.

9. The progressive influence of these new factors on the problems of the Services will be examined in detail in the body of this Report, but it will be convenient at this point to summarise briefly the chief events which led up to the appointment of the present Royal Commission. We have already referred to the announcement of the new policy contained in the Declaration of 20th August, 1917. In pursuance of this Declaration the Secretary of State visited India in the winter of 1917-18 and, in collaboration with the Viceroy, made a detailed enquiry into the measures necessary to give effect to the new policy. The result of this inquiry is contained in the Report on Indian Constitutional Reforms by Mr. Montagu and Lord Chelmsford, commonly known as the Montagu-Chelmsford Report.* This elaborate review of the whole situation formed the basis for lengthy and detailed discussion in India and in England out of which the Government* of India Act (1919) finally emerged. This Act, with the Rules made thereunder, embodies the present constitution of India.

Subsequent Developments.

10. It was hoped that the inception of the new policy would eliminate the primary cause of unrest in India, but unhappily the development of events belied this hope. Owing to causes

* Cd. 9109.

which it is not within our province to examine, unrest increased. The relations between the political classes and the Services instead of being improved were markedly worsened. In the minds of the Services the uncertainty of the political future of India, combined with attacks upon them in the press and on the platform, and their steadily deteriorating financial condition, produced feelings of anxiety and discontent. In Indian political circles, on the other hand, the new system seemed incomplete and slow in its operation. It seemed incomplete because the self-government granted in the "transferred" field was limited by the fact that the members of the All-India Services engaged therein were still under the ultimate control of the Secretary of State. It seemed slow in operation because the rate of Indianisation adopted since 1919 was regarded as illiberal. In the course of our tour through India we inquired into each of these causes of discontent; and we propose to discuss them in greater detail in subsequent sections of our Report. It is enough now to point out that in the course of 1922 they impelled both the Secretary of State and the Government of India to take action.

11. The immediate preoccupation of the Secretary of State was the check in the flow of recruits for the Indian Services. Accordingly he appointed a Committee, presided over by Lord MacDonnell, to enquire into the impediments to recruitment. The Committee reported on 21st June, 1922. Though certain detailed suggestions for improvement were made, the majority of the members, in a supplementary note, admitted that these recommendations were mere palliatives, and suggested that the time had come to consider on broader lines how the organisation of the Public Services could be adjusted to suit the recent constitutional changes.

While the Secretary of State was considering the problem arising out of the decline in European recruitment, the Government of India was being incessantly pressed to accelerate Indianisation. In order to clear the ground, all Local Governments were consulted on 30th May, 1922, in a letter which has become famous in the vocabulary of recent Indian politics under the name of the "O'Donnell Circular." In this letter the arguments for and against a drastic reduction or complete cessation of European recruitment were clearly summarised. Thus, within four years from the passing of the Government of India Act, both the Secretary of State and the Government of India had been obliged to reconsider the whole question of the Services. But the problems were only stated, they were not solved, by the MacDonnell Committee's Report and the O'Donnell Circular, and it was the need for a fresh, full and impartial enquiry into the means of solving them that led to the appointment of the present Royal Commission.

PART I.—ORGANISATION.

CHAPTER II.

APPOINTMENT AND CONTROL OF THE SERVICES.

12. The question of the appointment and control of the Services has been one of the principal issues of our enquiry. We were met at the outset by a strong plea, on the part of moderate Indian opinion, for the transference to some authority in India of the functions of appointment and control at present exercised by the Secretary of State.

The proposals laid before us in this regard were that these powers should be transferred either to the Government of India or to Provincial Governments. In many quarters it was felt that the "Public Service Commission," required to be established in accordance with Section 96 C of the Government of India Act and dealt with by us in Chapter IV of our Report, should assist the Government concerned in the discharge of its responsibilities.

We now propose to consider the above suggestions as applied to the various Services, which for that purpose may be classified as : (i) Services operating in the reserved fields of administration ; (ii) those operating in transferred fields ; and (iii) the Central Services under the Government of India.

(i) Services Operating in Reserved Fields.

13. These are the Indian Civil Service, the Indian Police Service, the Irrigation Branch of the Indian Service of Engineers, the whole cadre of this Service in Assam, and, except in the Provinces of Burma and Bombay, the Indian Forest Service.

We are agreed that in present conditions the appointment of and control over these Services must continue to vest in the Secretary of State. Some of our Members think that this conclusion follows inevitably from the principles implicit in the Government of India Act. Others of our Members are not prepared to accept this view, and hold that such a transfer is contemplated by the provisions of the Act. In spite, however, of this inability to agree on the constitutional position, we are agreed that the Secretary of State should for the present retain his powers of appointment and control of the All-India Services.

(ii) Services Operating in Transferred Fields.

14. These are the Indian Educational Service, the Indian Agricultural Service, the Indian Veterinary Service and the Indian Forest Service (in Burma and Bombay) and the Roads and Buildings Branch of the Indian Service of Engineers (except in Assam). The Civil side of the Indian Medical Service also falls within this category, but requires separate treatment.

In the transferred field the responsibility for administration rests on Ministers dependent on the confidence of Provincial Legislatures. It has been represented to us that although Ministers have been given full power to prescribe policy, they might be hampered in carrying it out by the limitations to their control over the All-India Services, inasmuch as members of these Services, unlike those of Provincial Services, are appointed by the Secretary of State and cannot be dismissed except by him, whilst their salaries are not subject to the control of the Local Legislatures.

Ministers themselves have told us that the All-India officers serving under them have, with negligible exceptions, given most loyal support in carrying out their policies, but the constitutional anomaly remains that the control over the transferred field contemplated by the framers of the Government of India Act has remained incomplete. Our proposals are framed to remedy this particular anomaly.

15. A considerable body of evidence has been placed before us regarding the effect of the cessation of All-India recruitment on the standard of administration in the transferred field, and many experienced officers apprehend some deterioration. Subject, however, to the assumptions in paragraph 17, we are not convinced that the risk attending the change is sufficient to outweigh the argument for carrying to a logical conclusion the constitutional change effected by the Government of India Act in this field of administration.

We are accordingly of opinion that, for the purposes of Local Governments, no further recruitment should be made for the Indian Educational Service, the Indian Agricultural Service, and the Indian Veterinary Service, as at present constituted; for the Indian Forest Service in Bombay and Burma, and (subject to the arrangements set out in paragraph 40 of our Report) for the Roads and Buildings Branch of the Indian Service of Engineers. The personnel required for these branches of administration should in future be recruited and appointed by Local Governments.

16. So far our recommendations apply to appointment only, but it is a logical consequence of what we have said above that Local Governments should have power to make rules regulating the Public Services which will take the place of the present All-India Services operating in the transferred field. We accordingly recommend that the Secretary of State should make the necessary delegation of powers under Section 96 B (2) of the Act. The delegation would naturally cover the existing Provincial as well as the newly provincialised Services.

The Government of India, the Secretary of State and Parliament all contemplated this use of Section 96 B (2) at the time the Act was passed, but it was regarded as a corollary to the delegation of full control that the Local Legislatures should.

pass Public Service Acts regulating the Provincial Services. These Acts might be expected, *inter alia* :—

- (i) To secure selection over the widest possible field on merits and qualifications and to reduce the risks of political interference.
- (ii) To lay down procedure for punishment and appeals.
- (iii) To provide satisfactory conditions in regard to such matters as pensions, promotions and leave.

We accordingly recommend that, if our proposals for devolution and control are accepted, Local Governments and Local Legislative Councils should take immediate steps to secure the legislation suggested above.

17. Our conclusions under this Section of our Report are dependent on the assumption that no change will be made in the position of the existing members of the All-India Services operating in the transferred field, that they will retain all the rights of officers of an All-India Service, and that they will receive any concessions in pay, pension, allowances, etc., which are sanctioned for corresponding All-India Services in the "reserved" field of administration.

(iii) *Central Services.*

18. Subject to the provisions of the Government of India Act, the Secretary of State retains powers of superintendence, direction, and control in regard to the field of administration in which the Central Services are employed.

Appointments to some of these Services are made entirely by the Secretary of State ; to others the Government of India makes all appointments, and in a third group appointments are made partly by the Secretary of State and partly by the Government of India. So far as appointments are not made by the Secretary of State, his control over the Services is restricted ; for, under Section 67 A (3) (iii) of the Government of India Act, the salaries and pensions of officers not appointed by him are subject to the vote of the Legislative Assembly.

19. We understand that the extent to which the Secretary of State finds it necessary in practice to exercise his powers of direct, as distinct from ultimate, control is less in the case of some of these Services than in others, and it seems to us unnecessary that he should retain his power of appointment to the former class, particularly as the tendency is more and more to make appointments to them in India. We have accordingly examined the Central Services from this point of view, and we recommend that :—

- (i) All appointments to
 The Political Department,
 The Imperial Customs Department,
 The Ecclesiastical Department.
 should be made by the Secretary of State.

- (ii) All appointments to the remainder of the Central Services should be made by the Government of India, with the exception of
The State Railway Engineers,
The Superior Revenue Establishment, State Railways, and
The Superior Telegraph and Wireless Branch.
- (iii) We have found it difficult to bring these three Services within either of the above groups, and we accordingly recommend that appointment should continue to be made as at present, that is to say, by the Secretary of State in respect of the recruits both European and Indian appointed in Europe, and by the Government of India in respect of the recruits appointed in India.

(Note.—Officers of the Indian Civil Service and military officers employed in Central Services should continue to be appointed by the Secretary of State).

CHAPTER III,

THE INDIAN MEDICAL SERVICE.

20. The following proposals are intimately connected with our proposals in Chapter XI for the provision of European medical attendance for the European members of the Services, and they should be read together.

21. Established in the first instance as a military service for duty with the Indian Army, the Indian Medical Service has played a notable part in the civil life of India. It has not only devoted itself to the medical care of the civil population of both races; it has also been the chief agent in spreading throughout India, by means of collegiate and hospital teaching and by personal example, Western ideas of medicine, surgery and sanitation, while amongst those who have devoted themselves to original research are some whose names are held in honour throughout the world. It has been increasingly evident, however, for some years past that some readjustment was desirable in the constitution of the medical service in India. A new position has been created by the fact that, under the reforms system, the medical needs of the civil population are now the care of a Minister in charge of a transferred department. In the second place, it has been argued that it was cumbrous and uneconomical that two separate Services, the Indian Medical Service and the Royal Army Medical Corps, should be maintained, side by side, for attendance on the troops stationed in India. These matters were the subject of very careful consideration by the Verney-Lovett Committee in 1919. They recommended that there

should be one "Indian Medical Corps," responsible for the whole of the medical administration in India, both civil and military. This Corps was intended to take over the work of the Royal Army Medical Corps, which would disappear from India.

We approach this matter with some diffidence, since, though we have heard many witnesses on the subject, we have not been able to devote ourselves entirely, as did the Verney-Lovett Committee, to this one question. It appears to us, however, that some steps must now be taken to settle the future status of the medical services in India, as well as to secure choice of treatment by men of their own race for British and Indians alike.

22. There has been difficulty of late years in securing British recruits for the Indian Medical Service. Much of this difficulty has no doubt been due to the universal shortage of medical men, which has been felt everywhere since the great war during which the ordinary training of medical students practically ceased. There seems, however, no doubt that the Indian Medical Service, as at present constituted, is less attractive than in the past. At the present time there is a shortage on the civil side of no less than 57 officers in the authorised cadre of 420.

Bearing in mind that there must be an adequate military reserve, and that civil medical administration is now in charge of Ministers, we think that on the whole the following solution is worthy of consideration :—

- (a) That, while all concessions granted to other All-India Services should be extended to the existing members of the Indian Medical Service in civil employ, no attempt should be made to perpetuate that Service as at present constituted.
- (b) That, contrary to the recommendation of the Verney-Lovett Committee that the Indian Medical Service should be developed into a new "Indian Medical Corps" which should absorb the Royal Army Medical Corps in India, the medical needs of both the British and Indian Armies in India should be provided for, in future, by the Royal Army Medical Corps (India) which should absorb the Indian Medical Service.

This is the scheme proposed and elaborated by the late Director of Medical Services (Lieutenant-General Sir Charles Burtchaell), and full details will be found in Appendix II.

This being mainly a military question, it would not be fitting that we should attempt to expound or argue the merits of the Burtchaell scheme, beyond saying that, in our view, it is capable of adaptation to meet the requirements of the Provinces for a separate civil medical service and to provide the necessary nucleus of British medical officers which we regard as vital to the needs and contentment of British civil servants in India.

23. Our consequential recommendations are as follows :—

- (c) A Civil Medical Service should be constituted in each Province and recruited, for the Local Government, by the Public Service Commission, (*See* Chapter IV.) on the basis of a competitive examination both in England and India. The standards for this examination should be fixed by the Public Service Commission in consultation with the Local Governments, the Director-General Indian Medical Service (or the corresponding officer with the Government of India), and the Medical Adviser to the Secretary of State in England.

The rates of pay and other conditions of service should be fixed by the Local Government in consultation with the Public Service Commission.

It should be part of the terms of contract that every officer of the Civil Medical Service should be liable for service with the Royal Army Medical Corps (India) in the event of a war involving a general mobilisation.

- (d) The minimum number of British officers to be maintained in the Civil Medical Service should be determined by the Secretary of State, in consultation with the Government of India and the Local Governments concerned, on the basis of paragraph 93 (a) of this Report. This number should not be varied except by order of the Secretary of State, and the responsibility for its maintenance should in the last resort rest upon him.
- (e) Of this prescribed British element in the Civil Medical Service, one-half (or a number not less than that of British medical officers from civil employ, needed for the Regular Military Reserve,* whichever is the larger) should be reserved for British officers to be seconded from the Royal Army Medical Corps (India) in the manner suggested in the Burtchaell scheme, the remainder being obtained through the competitive examination referred to in (c) above.
- (f) If the quota of British officers required to complete the authorised establishment referred to in (d) above cannot be obtained by the Local Government, under the system prescribed in (c), the deficiency should be made up, so far as practicable, by increased seconding of officers from the Royal Army Medical Corps (India). Failing the requisite number from that source, which in our view is an unlikely contingency, it is for consideration whether the deficiency could be made up

* On this point we have proceeded upon the assumption that the quota of military medical officers from civil employ required for the Reserve will not exceed the total (122) specified in the D.M.S.'s memorandum of 2nd July, 1922, attached to Government of India Despatch No. 1 of 1923 (Department of Education and Health).

by special additional recruitment by the Royal Army Medical Corps (India) of officers who could be detailed temporarily for service in the Civil Department and be available as an addition to the Regular Military Reserve.

- (g) With regard to the professorial appointments in Government Colleges and Hospitals, we draw attention to the specific recommendation made by the Islington Commission in paragraph (xxx), at page 268 of their Report. A distinction is there drawn between the clinical chairs, which should be reserved, for so long as a fit person is available, for officers of the Civil Medical Services, however recruited, and the scientific chairs, which should be thrown open to all candidates. We are disposed to agree with these recommendations, subject to the substitution of the Public Service Commission for the Recruiting Committee referred to at page 268 [in paragraph (xxxiv)] of the Islington Commission's Report.

CHAPTER IV.

THE PUBLIC SERVICE COMMISSION.

24. Wherever democratic institutions exist, experience has shown that to secure an efficient Civil Service it is essential to protect it so far as possible from political or personal influences and to give it that position of stability and security which is vital to its successful working as the impartial and efficient instrument by which Governments, of whatever political complexion, may give effect to their policies. In countries where this principle has been neglected, and where the "spoils system" has taken its place, an inefficient and disorganised Civil Service has been the inevitable result and corruption has been rampant. In America a Civil Service Commission has been constituted to control recruitment of the Services, but, for the purposes of India it is from the Dominions of the British Empire that more relevant and useful lessons can perhaps be drawn. Canada, Australia and South Africa now possess Public or Civil Services Acts regulating the position and control of the Public Services, and a common feature of them all is the constitution of a Public Service Commission, to which the duty of administering the Acts is entrusted. It was this need which the framers of the Government of India Act had in mind when they made provision in Section 96 C for the establishment of a Public Service Commission to discharge "in regard to recruitment and control of the Public Services in India such functions as may be assigned thereto by rules made by the Secretary of State in Council."

Since the passing of the Act, a prolonged correspondence, extending over nearly four years, has passed between the Secretary of State, the Government of India, and Local Governments, regarding the functions and machinery of the body to be set up. No decisions have, however, been arrived at, and the subject has been referred to this Commission for consideration.

25. We have given this matter our special attention and, in the light of the evidence as to Service conditions in general that has been placed before us, we are convinced that the statutory Public Service Commission contemplated by the Government of India Act should be established without delay.

It should, in our opinion, consist of a central body of five members, the maximum number permitted by the Act. As regards "the qualifications for appointment and the pay and pension (if any) attaching to the office of Chairman and member" (see Section 96 C (1) of the Act) we do not wish to infringe in any way the prerogative and discretion of the Secretary of State in Council. We would venture, however, to emphasise the paramount importance of securing as members of the Commission, men of the highest public standing, who will appreciate the vital and intimate relationship which should exist between the State and its servants. These Commissioners should be detached so far as practicable from all political associations and should possess, in the case of two of their number at least, high judicial or other legal qualifications. They should, we suggest be whole-time officers and their emoluments should not be less than those of High Court Judges.

26. The Public Service Commission, as we contemplate it, will be an All-India body; and, in so far as it may be invited by Local Governments to assist in dealing with problems of provincial administration, means must be provided to secure for it competent advice on provincial matters and to bring it into touch with local authorities. The requisite link might be found in the Chairmen of the Provincial Selection Boards, who, in our opinion, should be paid full-time officials appointed by the Governor in Council in consultation with the Public Service Commission. These Chairmen would not be members of the Commission, but would act as its advisers on all local matters.

27. The functions which should, at the outset, be assigned to the Public Service Commission fall into two categories:—

- (i) The recruitment of personnel for the Public Services and the establishment and maintenance of proper standards of qualification for admission to them;
- (ii) Quasi-judicial functions connected with the disciplinary control and protection of the Services.

Our proposals under the first head are as follows :—

- (i) The Public Service Commission should be charged with the duty of recruitment for the All-India Services as the agent of the Secretary of State so far as it is carried out in India.
- (ii) In respect of recruitment for the Central Services, and if a Local Government should so desire for Provincial Services (including Services provincialised under our proposals in Chapter II), it should act as agent of the Secretary of State, the Government of India or the Local Governments as the case may be.
- (iii) The Public Service Commission should be the final authority, so far as recruitment in India is concerned, for determining, in consultation with the Secretary of State, the Government of India or the Local Governments as the case may be, the standards of qualification and the methods of examination for the Civil Services, whether the channel of entry be by examination or nomination.

Under the second head we make the following recommendations :—

- (i) Appeals to the Governor-General in Council against such orders of local Governments as are declared by the Governor-General in Council to be appealable should be referred to the Public Service Commission ; the Public Service Commission should report to the Governor-General in Council its judgment on the facts and its recommendation as to the action to be taken ; and the officer concerned, if dissatisfied with the orders passed by the Government of India, should retain his right of appeal to the Secretary of State, provided that his case is certified by the Public Service Commission as a fit one for such appeal, in which case the Public Service Commission shall also furnish him with a copy of its report.
- (ii) Appeals from the Government of India which now lie to the Secretary of State should hereafter be referred to the Public Service Commission in the same manner as in the case of appeals to the Government of India (and the Commission will report to the Secretary of State in the same manner as in the case of appeals to the Government of India).

28. When a breach of the legal covenant between an officer and the appointing authority, proposed in paragraph 85 of our Report, is alleged, the aggrieved officer should have the right to apply to the Public Service Commission for a certificate that his case is *prima facie* a fit one for adjudication by a civil court.

The Public Service Commission should consider such application and, if satisfied in that behalf, grant the certificate. If the officer's claim is subsequently sustained by the courts, but not otherwise, the whole cost of the legal proceedings should be defrayed by the Government concerned. In the absence of such a certificate the ordinary rules as to costs should apply.

29. In addition to the functions under these two heads, the Public Service Commission should also deal with any suitable questions referred to it by the Government of India or Local Governments on their own initiative. For example, it might advise in cases in which the interpretation of regulations is in dispute ; or on general questions of Service conditions, particularly if legislation is contemplated.

30. In making these proposals, we have conceived the Public Service Commission as primarily concerned with the All-India Services and the Central Services. We are not suggesting, save only with regard to the determination of standards of qualification and methods of examination, that it should be concerned with the Provincial Services. We are aware that any proposal that a central Public Service Commission should be empowered to interfere on its own initiative in provincial administration would be regarded as violating the principle of provincial autonomy. In our view, therefore, the Public Service Commission should not forcibly be intruded into the provincial field ; its knowledge and experience should merely be placed at the disposal of Local Governments. We are confident that the Public Service Commission will become in course of time the recognised expert authority, in India, on all Service questions.

31. In conclusion, we regard our recommendations under this head as one of the cardinal features of our report, and as forming an integral and essential part of the whole structure of our proposals for the future of the Services. We therefore trust that effect to them may be given as soon as practicable.

CHAPTER V.

INDIANISATION.

32. In our summary of the circumstances which led to the appointment of the present Royal Commission, we have drawn attention to the fact that the rates of Indianisation of the Services now in operation, although representing a marked advance on those obtaining before 1919, have nevertheless been criticised in some quarters on the ground that they move too slowly in the direction desired by Indian public opinion. This is to some extent unavoidable in the case of any reform which seeks to change

the personnel of the Services without seriously disturbing the stability and continuity of public administration during the transitional period.

We do not propose to argue the case for Indianisation *de novo*. The question was among those remitted for consideration to the Islington Commission, and the various relevant considerations were fully discussed in their Report. Subsequent to the signature of that Report, and before orders were issued on its recommendations, the announcement of August, 1917, had entirely changed the constitutional outlook. In the words of the authors of the Report on Indian Constitutional Reforms, the success of the new policy "must very largely depend on the extent to which it is found possible to introduce Indians into every branch of the administration." Recognising that Indianisation must be a "long and steady process," they recommended that recruitment of a largely increased proportion of Indians should be initiated without delay, if the Services "are to be substantially Indian in personnel by the time that India is ripe for responsible government."

Subsequently the declared policy of your Majesty's Government to provide for the "increasing association of Indians in every branch of the administration" was placed in the forefront of the preamble to the Government of India Act, 1919, as also of our Terms of Reference.

33. The orders at present in force regarding the Indianisation of the Services were passed in 1919 and 1920 on the recommendations of the Islington Commission and in the light of those contained in the Report on Indian Constitutional Reforms. These orders as affecting the All-India Services are summarised in Annexure III of Appendix I. The scale of recruitment of Indians varies from 33 per cent. in the Indian Police Service up to 50 per cent. in the Agricultural, Educational and Veterinary Services and the Indian Service of Engineers. Actually the supply of European recruits has proved inadequate, and in many cases the percentages of Indian recruitment laid down have been largely exceeded. For instance in the Indian Civil Service, from 1915 to 1923 inclusive, there has been a deficiency of 125 in the number of Europeans who should, in accordance with the existing orders, have been recruited, while, in the same period, 12 Indians have been recruited above the numbers laid down. Again, in the Educational and Agricultural Services recruitment of Europeans has practically ceased except in Burma.

As we have already shown, however, the rates of recruitment of Indians, though in some cases appreciably higher than had been authorised, did not satisfy Indian political opinion. In February, 1922, the following resolution was adopted by the Legislative Assembly :—

"This Assembly recommends to the Governor-General in Council that enquiries should, without delay, be inaugurated as to the measures possible to give further effect to the

Declaration of 20th August, 1917, in the direction of increased recruitment of Indians for the All-India Services, and also that steps be taken to provide in India such educational facilities as would enable Indians to enter the technical services in larger numbers than is at present possible."

The views of the Local Governments were thereupon canvassed by the Government of India in the communication known as the "O'Donnell Circular," to which we have already referred.

34. The O'Donnell Circular marshalled the arguments both for and against a reduction in European recruitment for the Services. It was clear from its general character, as also from the nature of the discussions which preceded and followed it, that the question of Indianisation was being viewed by both officials and by public opinion in India from a new angle. In the days of the Islington Commission the question was "How many Indians should be admitted into the Public Services?"; it has now become "What is the minimum number of Englishmen which must still be recruited?"

In arriving at our conclusions in this matter, we have been guided by the principles laid down in paragraph 314 of the Report on Indian Constitutional Reforms. They are (i) that the traditional characteristics of the Indian Public Services should as far as possible be maintained, and there should be no such sudden swamping of any Service with any new element that its whole character suffers a rapid alteration, (ii) that there are essential differences between the various Services and the various Provinces, (iii) that there should be, so far as possible, an even distribution of Europeans and Indians between the different grades of the same Service, i.e., that the cadre should not be disturbed by haphazard stratifications, and (iv) that a demand should not be created in excess of the supply.

We propose to state our conclusions separately for each Service.

(i) *Indian Civil Service.*

35. The percentage of recruitment of Indians for the Indian Civil Service was fixed in 1920 at 33 per cent., commencing in the year 1920, and rising by $1\frac{1}{2}$ per cent. to 48 per cent. to be attained in the year 1930, including listed posts. In the present year, 1924, it is 39 per cent.

In our view it is desirable, in order not only to carry out the spirit of the Declaration of August, 1917, but to promote an increased feeling of camaraderie and equal sense of responsibility between British and Indian members of the Service, that a proportion of 50-50 in the cadre of the Indian Civil Service should be attained without undue delay and that the present rate of Indian recruitment should be accelerated with this object.

In this connection some Members of the Commission attach particular importance to maintaining this principle of equality in the rate of direct recruitment as well, and hold strongly the view that the ratio of such recruitment should be maintained at 40 Europeans and 40 Indians out of every 100 recruits (the remainder to be filled by promotion from the Provincial Civil Service) at any rate until the 50-50 cadre is reached. In pressing this principle they are willing to contemplate the maintenance of that ratio of recruitment after the 50-50 cadre is attained and to continue it until a cadre of 40-60 is reached in due course.

According to the calculations which have been supplied to us, the foregoing rate of recruitment may be expected (assuming a future rate of retirement amongst officers of not less than 10 per cent. above the normal) to produce a 50-50 cadre in about 15 years, by which time the whole situation will again have come under review by the second Statutory Commission.

36. This, in our opinion, might be accepted as a fair and prudent rate of progress. If, however, the increased percentage of retirements, which is anticipated by some of our Members as likely to obtain in future, should not be realised, or if any other abnormal circumstances should arise, such as shortage of recruits in any given year, we would leave it to the discretion of the Secretary of State to make such adjustments in the rate of recruitment as might be necessary to produce a 50-50 cadre in 15 years from the time of coming into operation of the scheme recommended above.

We are unanimous in considering that an increase in the rate of promotion from the Provincial Civil Services is desirable, and we are of opinion that 20 per cent. of the recruits should be obtained from that source in future. At present, the total number of posts available for promoted officers has been fixed at a maximum of 16 per cent. of the total cadre, a proportion which so far has not been attained.

(ii) *Indian Police Service.*

37. The recruitment of Indians for the Indian Police Service was fixed in 1919 at 33 per cent. in Provinces other than the North-West Frontier Province and Burma. For the North-West Frontier Province the proportion is restricted to 10 per cent. and for Burma to 22 per cent., of which at least 15 should be Burmans. These ratios still obtain.

In determining the ratios of recruitment to be adopted in future, we have taken into account the special circumstances in the internal conditions of India which justify exceptional treatment of the Indian Police Service, and, after careful consideration of the facts and the evidence laid before us, our recommendation is that of every 100 recruits for this Service, 50 should be Europeans recruited directly, 30 should be Indians directly

recruited and the remaining 20 obtained by promotion from the Provincial Services. Assuming a future rate of retirement of not less than 10 per cent. above normal, the corresponding cadre of 50-50 would be reached in about 25 years from the date on which the new scheme of recruitment comes into operation. In this case also we would leave it to the discretion of the Secretary of State to make any necessary adjustment in the rate of recruitment to attain the above cadre.

38. Of the 50 per cent. which we have recommended as the future rate of Indian recruitment for the Indian Police Service, we have suggested that 30 per cent. should be obtained by open competition and 20 per cent. by promotion from the Provincial Service. The general trend of evidence is that at present the best type of Indian is not being obtained for the Indian Police Service; partly because of the inadequacy of the emoluments offered and partly because of the hardships of a career in the Police as compared with that in other branches of the Public Service. The new rates of pay which we have suggested will, we believe, go some way towards obviating the first of these defects and discounting the latter by enhancing the general attractiveness of service in the Police. Moreover, we are not satisfied that all the available sources of supply have yet been tapped, while we are convinced that it is in the best interests of the State that young men of good family and of the requisite physical and mental qualifications should be induced to enter the Service. For these reasons, we have decided to keep open, and even to extend somewhat, the field of direct recruitment, as it is obvious that it is only by offering yearly a constant and fairly large number of appointments that the Police Service can become generally known as offering a suitable career to young Indians of the right stamp. As regards the Provincial Service officers, the present position is that they are allotted 11 per cent. of the 33 per cent. of the Indian Police Service posts now being filled by recruitment from Indian sources. In proposing to raise this figure to 20 per cent. for the future, we feel that we are opening up considerably wider prospects of promotion to the selected Provincial Service officer, to whose fitness for the higher posts in the Department we have had convincing testimony. We recommend in addition that in any year in which the full quota of 30 per cent. of direct recruits is not obtained by open competition, the balance should be made good by the promotion of the requisite number of officers from the Provincial Service. Such additional appointments from the Provincial Service should be filled, so far as possible, by young officers of not more than five years' service, who have been directly recruited as Deputy Superintendents, and who have given proof of fitness for early advancement. On promotion to the Imperial Police such young officers should be placed at the bottom of the list of Assistant Superintendents.

(iii) *The Indian Forest Service.*

39. So far as this Service is concerned, we endorse the views expressed by the Islington Commission to the effect that every effort should be made to discover and recruit competent men in India and that it should be possible to meet the whole of the normal requirements of the Imperial branch in India within a reasonable period.

Since that Commission reported, arrangements have, we are informed, been made which will ensure that the instruction and training available at the Forest Research Institute and College at Dehra Dun will be not inferior to that obtainable in other parts of the world. We further understand that instruction and training on the superior scale contemplated will be commenced in 1925. In Burma, also, a forestry course has been inaugurated at Rangoon University.

The percentage of direct recruitment of Indians for the Indian Forest Service has been fixed at 25 per cent. for Burma and at 40 per cent. for the rest of India, for a period of 5 years from 1921. This includes Indians recruited both in England and in India. In addition, 12½ per cent. of the posts on the cadre are filled by promotion of officers from the Provincial Forest Services.

Taking all these factors into consideration, we recommend that recruitment should henceforward be in the ratio of 75 per cent. Indians and 25 per cent. Europeans in those Provinces in which Forest administration is reserved. As regards Bombay and Burma, we have already expressed our view that the future recruitment of officers to perform the duties and functions at present carried out by members of the Indian Forest Service should be left to the discretion of the Local Governments concerned.

(iv) *Indian Service of Engineers.*

40. We have considered this Service on the basis of the following three categories :—

- (i) That portion of the cadre working in the Roads and Buildings Branch in Provinces in which it has been separated from the cadre working in the Irrigation Branch ;
- (ii) That portion of the same cadre working entirely in the Irrigation Branch in these Provinces, and
- (iii) A combined cadre working both in the Roads and Buildings and in the Irrigation Branches in Provinces in which no such separation has been made.

As regards (i), and similarly in respect of Provinces where such division may in future be made, we have already recommended that recruitment should henceforward be conducted on a provincial

basis. The fixation of the proportion of Europeans and Indians to be recruited is, therefore, entirely a matter for the discretion of the Local Governments concerned.

As regards (ii), we recommend that future recruitment for the Irrigation Branch should be in the ratio of 40 per cent. Europeans, 40 per cent. directly recruited Indians and 20 per cent. promotions from the Provincial Service.

With regard to (iii), we are of opinion that, in such circumstances, no change should be made in the existing ratios of recruitment. These are 50 per cent. recruited in England and 50 per cent. recruited in India. Of the 50 per cent. recruited in England, 10 per cent. must be Indians. For Burma, the present percentage recruited in England is 67 instead of 50, but the Province falls into the first category.

(v) *The Indian Agricultural Service, the Indian Veterinary Service, the Indian Educational Service and the Indian Medical Service.*

41. If our proposals are accepted regarding the provincialisation of the Agricultural, Veterinary, Educational and Medical Services, the Forest Service in Bombay and Burma and the Roads and Buildings Branch of the Service of Engineers in those Provinces in which a divided cadre has been arranged, it will rest entirely with the Local Governments [subject to paragraph 23 (d) in the case of the Medical Service] to determine the number of Europeans who may in future be recruited. In this matter the discretion of Local Governments must be unfettered, but we express the hope that Ministers, on the one hand, will still seek to obtain the co-operation of Europeans in these technical departments, and that qualified Europeans, on the other hand, may be no less willing to take service under Local Governments than they were, in the past, to take service under the Secretary of State.

(vi) *Central Services.*

42. We have carefully reviewed the evidence regarding recruitment for the Central Services and make the following recommendations:—

- (a) *Political Department.*—25 per cent. of the total number of officers recruited annually should be Indians, who should be obtained from the Indian Civil Service, the Provincial Civil Services, and from the Indian Army as at present.
- (b) *Imperial Customs Service.*—Recruitment should remain on the present basis, i.e., not less than half the vacancies are to be filled by appointment in India of statutory natives of India.
- (c) *Superior Telegraph and Wireless Branch.*—Recruitment should be 25 per cent. in England and 75 per cent. in India.

- (d) *State Railway Engineers.—Superior Revenue Establishment, State Railways.*—We understand from the evidence placed before us that the present rate of recruitment (taking an average over the departments as a whole) has been designed with a view to securing, as soon as practicable, a cadre of which, out of every 100 officers, 50 shall have been recruited in India and 50 in Europe. The date at which this cadre may be reached is, we are informed, dependent on the provision of adequate training facilities in India. Measures with that end in view were advocated by the Islington Commission and we are informed that facilities have already been provided to a limited extent. We are strongly of opinion that the extension of the existing facilities should be pressed forward as expeditiously as possible in order that recruitment in India may be advanced as soon as practicable up to 75 per cent. of the total number of vacancies in the railway departments as a whole, the remaining 25 per cent. being recruited in England.
- (e) As regards the remaining Central Services, recruitment should be at the discretion of the Government of India.
- (f) In Services dealt with in sub-paragraphs (b), (c) and (d), recruitment should be by open competition.

PART II.—SERVICE CONDITIONS.

CHAPTER VI.

PAY AND ALLOWANCES.

43. One of the questions to which we have given the most anxious consideration is whether a basic pay lower than that which obtains at present for both Europeans and Indians should be fixed for future recruits, Europeans receiving an adequate addition thereto in the form of overseas pay. The arguments for adopting such a course are many and familiar, and have formed a perennial subject of controversy ever since the problem of Indianisation became a political issue. A great volume of evidence, for and against, has been submitted to the Commission, and may perhaps be fairly summarised as revealing a sharp cleavage of opinion between the Services and the politicians. The former are almost unanimously opposed to a reduction of basic pay. They urge that it would bring about too marked a differentiation between the emoluments of British and Indian Civil Servants, working side by side and performing similar duties. Indian officers further contend that far from such a reduction being just, they ought to receive a substantial increase in their pay. Political opinion, on the other hand, is strongly in favour of the "market price" principle, and contends that, whilst a high rate of pay may be necessary to attract Europeans, the best Indian candidates could be secured on considerably lower terms. There is much reason in this contention, which is pressed with vigour as one of the main justifications for increased Indianisation.

In the face of these divided, and possibly interested, counsels the Commission have endeavoured to view the needs of India from a detached and somewhat wider standpoint, and have come to the conclusion that it would be inadvisable, in present circumstances, to reduce the basic pay of the Services.

44. The existing scales of pay for the All-India Services were fixed in 1919-20 on the basis of the recommendations of the Islington Commission. A great rise in prices had taken place since their Report was signed. This was not ignored in recasting the scales, but no attempt was made to increase the rupee rates of pay to a figure which could justly be considered as taking full account of this rise in prices. At the time when the scales were being revised a new exchange policy intended to fix the value of the rupee at 2s. was under consideration. It is clear that the belief that exchange would remain high was an important factor in fixing the rupee pay at rates which would otherwise have represented inadequate compensation for the rise in prices. We find strong support for this view in the answer given in the

House of Commons by the Under Secretary of State for India on 20th July, 1922 :—

“ The present scale of salaries was fixed with effect from 1st December, 1919. The official exchange value of the rupee was then 2s. At that time it was expected that the exchange value would continue about that figure, though it could not be definitely guaranteed.” (Hansard, Vol. 156, p. 2292.)

If exchange had remained at or about 2s. we believe that no complaint could have been made regarding the scales of 1919–20. But the rupee fell from 2s. 10½d. in February, 1920, to below 1s. 4d. in February, 1921, and, except for short periods, remained below 1s. 4d. for the next two years. The effect on the financial resources of officers remitting large sums to England for the maintenance and education of their families, and consuming considerable quantities of imported articles the rupee price of which has greatly risen, was immediate and serious; and a flood of memorials followed protesting against the inadequacy of the new scales. The withdrawal of exchange compensation allowance from the Services which had received it up to the introduction of the new scales afforded another ground for complaint, as soon as the rupee fell below the rate at which exchange compensation allowance would have been admissible under the old rules.

45. Except for an inconsiderable increase in the pay of the Indian Police Service, made in 1921, the present scales of pay are substantially as they were fixed in 1920. They are set out in Appendix III.

In approaching the question of their adequacy we desire to call attention to the views expressed in the Islington Commission Report and in the Montagu-Chelmsford Report in this regard. The criterion adopted by the Islington Commission, for application to pay questions, was as follows :—

“ Government should pay so much and so much only to their employees as is necessary to obtain recruits of the right stamp, and to maintain them in such a degree of comfort and dignity as will shield them from temptation and keep them efficient for the term of their service.”

We are in full agreement with the principle thus expressed, and have made it the basis of our proposals. The authors of the Montagu-Chelmsford Report say (paragraph 318) :—

“ We are anxious that the present opportunity should be taken to do something towards restoring the real pay of the existing services to the level which proved attractive 20 years ago.”

This recommendation was made six years ago, and it is one of the most insistent complaints of the Services that so little has been done to give effect to it.

46. In the course of our enquiry, the Services have placed before us carefully compiled statements of current income and expenditure. We could not examine these figures in such detail as to warrant us in accepting them as a sufficient basis for new scales of pay, but they afford strong evidence that a considerable proportion of married officers now serving are either falling into debt or only avoid doing so by economies which may be detrimental to their contentment and efficiency.

We have obtained independent confirmation of this view from banks or financial houses in close and constant relation with members of the Services. We were informed that a great many officers, particularly in the early years of married life, are at present in debt to an extent which was unknown 20 years ago; and that this is in no sense due to extravagance. Insurance policies are pledged as security for advances to a much greater extent than formerly and in many cases their surrender value taken. In other words officers are mortgaging or sacrificing the provision made for their families in the event of their death and only escape from their difficulties, if at all, towards the end of their service. This is an undesirable state of affairs, from the public as well as the private point of view, and one which calls for early alleviation.

47. Arguments based upon statistical comparisons of prices must always be used with caution, but the following facts should, we think, have weight in considering the remuneration of the Services.

- (i) Such information as we have obtained as to the cost of living for a European in India in 1914 and in 1923 points to an increase of about 60 per cent. within that period.
- (ii) Simultaneously there has been a greatly increased drain in the matter of home remittances. Expenditure on the maintenance and education of children in England is perhaps the commonest and the most substantial item in this connection and a comparison between the fees charged by a representative group of Public Schools in 1923 and 1914 (taken from the Public Schools Year Book) shows an increase of over 50 per cent. The increase is more marked in the case of the less expensive schools, and the struggle of the average married officer to give his children an education not inferior to his own is undoubtedly severe.

It will be remembered that the scales in force for the All-India Services up to 1919 were considered by the Islington Commission to be inadequate in 1914 and we do not consider that the increases given in the former years were commensurate with the rise in prices before and after 1914. The present rates

of pay are therefore far below " the level which proved attractive 20 years ago."

48. We have made enquiries of a large number of commercial houses in India regarding the remuneration of their superior European staff, and particularly regarding improvements in such remuneration since 1914. The evidence we received was in most cases given under a pledge that it would be treated as confidential and we cannot therefore refer to it in detail. But, although the pay of their employees on joining was sometimes lower than that of the Civil Services, we found, generally speaking,

- (i) that increases amounting to 50 per cent., or even 75 per cent., had been given within the period mentioned,
- (ii) that employees whose education and training involved an expenditure of time and money very much less than those of the Civil Services might reasonably look forward to salaries comparing favourably with the general standard of the Service time scales ; and that the rewards to exceptional men are out of all proportion to those attainable in Government service,
- (iii) that, apart from salaries, commercial houses of the better class in India add to the remuneration of their European employees in various ways which have no parallel in Government service. Bonuses are given in addition to pay and retiring bonuses in addition to pensions. In some cases pay and pension are given free of Income Tax. Substantial contributions are made to the provident funds of the employees. Remittance of a proportion of salary is allowed at rates well above the current rate of exchange. Free quarters, in some cases furnished quarters, are provided, or an allowance in lieu which has been raised substantially since 1914. Senior officers draw motor car allowances. Passages are provided at reasonable intervals for officers, and sometimes for their families.

It is not suggested that Government is in a position to treat its own employees in such a generous fashion, but the disparity of remuneration as between a commercial and an official career has become so conspicuous, and so discouraging to Civil Servants, that we feel something should be done without delay to restore contentment.

In dealing with this question we have borne constantly in mind the urgent need for economy in Indian administration, but after the most careful consideration we think that the improvement in emoluments set out in paragraphs 52 to 55 are absolutely necessary.

49. A striking and gratifying feature of the official representations which have been submitted to us by the various Service Associations and individual officers is their expression

of whole-hearted acceptance of the reforms and the spirit of the Government of India Act. They have stated, unreservedly, their anxiety to assist and play their part in the progress of India along the road to self-government. They have only pleaded that, so long as they are engaged in this task, they should be treated with justice and consideration and that their material conditions of service should be made fair and tolerable.

50. It has been represented to us almost unanimously by the Indian members of the Services, that high prices have equally affected them and that the necessity of maintaining a standard of living comparable to that of their European colleagues, apart from the special demands on account of their religious and social obligations which are peculiar to Indians, places them in a financial position no less embarrassing than that of European officers. It is partly on account of these representations that we have, in paragraph 43, recommended that the basic pay should not be lowered. At the same time, having regard to Indian public opinion as to the necessity of economising the cost of Public Services, we are not prepared to recommend an increase in their emoluments. We have, therefore, except in the case of the Indian Police Service, adopted a system which will meet the requirements mainly of European married officers, particularly those in the middle years of their service.

51. We do not propose, except in the cases dealt with in paragraphs 52 and 59, to revise the existing scales of basic pay recently fixed for the various Services, and confine our recommendations to the giving of relief in other and simpler ways. The system we have adopted is to improve the overseas pay in certain years of service and to make it remittable at a favourable rate. In addition, we recommend the grant of other benefits as set out in paragraphs 63, 92 and 93.

We accordingly make the following proposals for the All-India Services, including, of course, all present members of the All-India Services employed in the transferred field of administration.

Indian Police Pay.

52. The case of the Police Service is peculiar. The conditions have changed and whilst, on the one hand, more specialised training is now necessary to equip the present-day police officer for the efficient discharge of his duties, his responsibilities, on the other hand, have become more onerous and irksome and require greater intelligence and resource. With a view, therefore, to making the Service more attractive, we are prepared to treat it as an exception and to improve its basic pay. But to avoid disturbing the relative position of the Service to other Services, we have not altered the maximum basic pay. What we propose, in order to make the initial basic pay more attractive to the Indian youths of the proper class, is to raise it slightly, without

altering, in the first four years, the total emoluments which are considered to be sufficiently attractive for the European recruit.

The following is the scale we recommend :—

Year.	Rupees per mensem.			
	Inferior.		Superior.	
	Present.	Proposed.	Present.	Proposed.
	Rs.	Rs.	Rs.	Rs.
1	325	350	—	—
2	350	375	—	—
3	375	400	—	—
4	400	425	—	—
5	425	450	—	—
6	450	475	600	650
7	475	500	625	675
8	500	525	650	700
9	525	550	675	725
10	550	575	700	750
11	575	600	725	800
12	600	625	750	825
13	625	650	775	850
14	650	675	800	900
15	675	700	825	925
16	—	—	850	950
17	—	—	900	1,000
18	—	—	950	1,025
19	—	—	1,000	1,050
20	—	—	1,050	1,075
21	—	—	1,100	1,100
22	—	—	1,150	1,150
23	—	—	1,200	1,200
24	—	—	1,250	1,250
25	—	—	1,300	1,300
26	—	—	1,350	1,350
Selection	—	—	1,450	1,450

Overseas Pay.—(General).

53. The present rates of overseas pay are Rs.150, Rs.200 and Rs.250, except in the Indian Police Service, where a lower rate of Rs.125 is provided in the first three years in consequence of the earlier age at which the recruit enters the service. In granting relief in overseas pay, we have adopted the rule of not varying the stages at which the overseas pay rises under the existing orders from Rs.150 to Rs.200 in the different Services. The number of years of service after which the rate of overseas pay rises from one figure to another, is different for different Services, and we do not wish to go behind the reasons which led Government to lay down these differences. But we are of opinion that about the time when the rate rises from Rs.150 to Rs.200, the European officer has generally married and is beginning to

be faced by heavier expenses. We have, therefore, decided to recommend that the rise from Rs.150 should be to Rs.250 and not to Rs.200. In other words we propose to abolish the Rs.200 rate, and to substitute for it the rate of Rs.250 in the years in which it is now prescribed according to the scales of pay now in force.

The second addition to overseas pay which we recommend is in the latter half of an officer's service. We propose that from the 12th year onwards, the rate of overseas pay of all Services should be raised from Rs.250 to Rs.300, except in the case of the Indian Police Service where, owing to recruitment at an earlier age, the increase should come three years later, i.e., from the 15th year onwards.

The rates of overseas pay for the various Services, according to our proposals, will thus be :—

Indian Service of Engineers :

For the first 7 years, Rs.150 ;
for the next 4 years, Rs.250.

Indian Civil Service and Indian Forest Service :

For the first 6 years, Rs.150 ;
for the next 5 years, Rs. 250.

Indian Educational Service, Indian Agricultural Service and Indian Veterinary Service :

For the first 5 years, Rs.150 ;
for the next 6 years, Rs.250.

In the 12th year, and thereafter up to the end of the time scale, in all the above mentioned Services, Rs.300.

In the Indian Medical Service, Captains with more than three years' service, who now get Rs.200, will be entitled to Rs.250, while Majors with not less than 11 years' service, and Lieutenant-Colonels, will get Rs.300 instead of Rs.250.

In the Indian Police Service, in which recruits are, on the average, 3 years younger than in the other Services, and in which the basic pay is to be raised for reasons already given, the rupee rates of overseas pay should be as under :—

In the first three years	..	..	..	..	Rs.100
In the fourth year	..	..	..	..	Rs.125
In the next four years	..	..	..	..	Rs.150
In the next six years	..	..	..	..	Rs.250
In the 15th year and thereafter to the end of the time scale	..	..	..	..	Rs.300

Remittance Privileges.—(General.)

54. In all Services, the Police included, from the 5th year of service onwards every officer of non-Asiatic domicile should be permitted to remit his overseas pay as above proposed through the High Commissioner at a rate of 2s. to the rupee, or to draw it in London in sterling at that rate. Indian members of the Services

who are already entitled to overseas pay, should draw the increase which we propose in such overseas pay, but should only be entitled to the remittance privilege if they can satisfy the High Commissioner that they have wives or children in Europe.

Officers promoted to the selection grade in the Indian Police Service, the Indian Medical Service, the Indian Agricultural Service, the Indian Veterinary Service, and to the senior and junior selection grades in the Indian Educational Service should draw the maximum overseas pay and also receive the remittance privilege described above.

We have set out in Appendix III tables showing the present and the proposed emoluments of these various Services.

Administrative Posts.

55. These proposals involve some adjustment of the pay of officers in lower administrative posts. The pay of Deputy Inspectors-General of Police, Superintending Engineers in the Indian Service of Engineers, and Conservators of Forests in the Indian Forest Service, should be fixed at Rs.2,150, instead of the present incremental pay of Rs.1,750-100-2,150, but in that case they would receive no remittance benefit.

With regard to administrative posts, above the time scale, other than those referred to in this paragraph, we have not found it possible to come to an agreement as to the nature and extent, if any, of the improvement in emoluments which should be made. The English Members, on the one hand, regard it as essential that the financial positions of such officers should be substantially improved. They have therefore submitted their proposals in this connection in a separate note (Appendix IV). The Indian Members, on the other hand, are opposed to any recommendations in this direction and have similarly recorded their views in Appendix IV.

Women's Branch, I.E.S.

56. The Women's Branch of the Indian Educational Service is paid on a lower scale than the other All-India Services. We think that they have a claim to some improvement in their emoluments, but not necessarily to the same extent as the concessions recommended above for the All-India Services generally.

We would leave it to the Government of India to give special consideration to their case and to make the necessary recommendations to the Secretary of State.

Central Services.

57. We consider that in principle the concessions proposed for members of the All-India Services should *mutatis mutandis* be granted to all European officers in the Central Services appointed by the Secretary of State, and to such other European officers, who, although appointed by the Government of India, were so appointed on the basis of a non-Asiatic domicile.

Judicial Pay in the Indian Civil Service.

58. Officers appointed to the Judicial Branch of the Indian Civil Service have for many years received additional pay. Since the reorganisation of 1919 it has been fixed at Rs.150 a month. This advantage in pay was given in view of the fact that, in the past, the general attractions of judicial work were inferior to those on the executive side, and consequently a higher rate of pay had to be offered to induce men to enter the Judicial Branch voluntarily. We do not consider that this consideration any longer applies. The duties of officers on the executive side have become so onerous that the judicial side has by comparison become the more attractive of the two, and we see no reason why any special inducement should be offered to officers to enter it.

We do not propose that the present Judicial Pay should be withdrawn from any officer who elected for the Judicial Branch and was appointed to it between the reorganisation of the pay scale in 1919 and the date of our Report, or from any officer who was receiving the judicial allowance as a permanent element in his salary at the date of our Report. We recommend, however, that no officer appointed to the Judicial Branch after the latter date should receive in respect of his service therein anything more than the pay appropriate to his length of service in the time scale which we have recommended above for the Indian Civil Service generally. We have been informed that in Madras the Judicial Pay, which under the rules in force at the time was due to Provincial Service officers holding listed judicial posts, has been withheld from them because, unlike the Judicial Pay of officers of the Indian Civil Service, it was subject to the vote of the Legislative Council which refused to vote it. We consider that the refusal to provide the necessary funds constitutes an unfair discrimination against this particular class of officer and that their grievance should be met.

Technical Pay in the Indian Service of Engineers and Superior Telegraph Branch.

59. When the pay of the Superior Services was revised in 1919-20 the Secretary of State, in the case of the Indian Service of Engineers and the Superior Telegraph Branch, not only differentiated by means of overseas pay between officers of European and Indian domicile, but made a further differentiation by means of technical pay between officers trained in Europe and those trained in India. This technical pay amounts to only Rs.75 a month, but it has given rise to very widespread dissatisfaction. The principle underlying the grant of overseas pay is well understood by all concerned, but the introduction of technical pay has been regarded as creating an invidious distinction and as reflecting upon the technical qualification of officers recruited in

India. We understand that the decision was based on the view that India does not at present afford the same facilities for technical training as are obtainable in Europe, and that the engineer recruited in Europe must for the present be held to possess a higher market value than an engineer recruited in India. This distinction does not appear to us justifiable, having regard to the number of distinguished engineers who have received their training in India, at Roorkee and elsewhere. In any case the officers of the Service, whether recruited in Europe or in India, carry out the same work, and we see no reason why they should not receive the same pay. We accordingly recommend that the technical pay referred to above should be reckoned as part of the basic pay of the Service, and that officers who received their training at the Indian engineering colleges, whether they be Indians or Europeans, should, except for overseas pay, receive the same emoluments as officers trained in Europe. The scale of basic pay for the Indian Service of Engineers set out in Appendix III is drawn up in accordance with this conclusion.

Pay of Military Officers of the Political Department.

60. The Political Department of the Government of India is composed partly of officers of the Indian Civil Service and partly of Indian Army officers. After ten years' service in the Department the latter are placed on a "supernumerary list" and are no longer recallable to military duty. Their career in the Department is to all intents and purposes a civil one, and their duties and responsibilities are the same as those of their civilian colleagues. There is, however, a differentiation in the matter of pay in favour of the civilians. From the 8th till the 22nd year of service the latter receive a personal allowance over and above the pay which they draw in common with the military officers, and this allowance amounts on the average to Rs.200 a month. The military officers in the Department have represented to us that this differentiation is inequitable. We think this contention is justified. Our view is strengthened by the practical consideration that the Political Department does not, as matters stand, offer sufficient attraction to military officers of the type required for its difficult and exacting duties. We are informed that whereas formerly the number of applicants was far in excess of the vacancies, at present great difficulty is experienced in securing suitable officers. It has been the invariable rule in the case of military officers serving with Indian Civil Service officers in mixed "Commissions," such as exist in the Punjab, the Central Provinces, Burma, and Assam, that all draw equal pay, and we can see no valid reason for making an exception in the case of military officers of the Political Department. We recommend, therefore, that in future they should receive the same pay as their civilian colleagues. We have dealt with their pension grievance in Chapter VIII, paragraph 73.

Pay of Specialist Officers.

61. Apart from the All-India Services and the Central Services, there is a class of officers whose claim to similar treatment in the matter of pay concessions has to be considered. These are specialist officers, recruited either by the Secretary of State or Local Governments, who are not members of any organised Service but whose status and emoluments are generally comparable with those of the Superior Services dealt with above. It will be convenient to deal first with the Public Works Department specialists. These officers are employed on work of a permanent character, for example as architects, electrical engineers and sanitary engineers under various Local Governments. They are recruited on contract for a fixed period of years in the first instance, but in so far as the duties on which they are engaged are of a permanent and not a temporary nature they have a reasonable expectation that, so long as their work is satisfactory, their services will be retained. In the past many of them have been engaged on a permanent basis on the completion of their contracts.

They fall into three classes :—

- (a) Those appointed by the Secretary of State and holding permanent appointments. The pay of these is equivalent to that of officers of the Indian Service of Engineers of similar standing, and we recommend that they should receive the same concessions as are recommended for officers of the latter Service.
- (b) Officers appointed by the Secretary of State and serving under contract. If the terms of the contract contain a clear implication that permanent employment is contemplated, subject to approved service, on the conclusion of the temporary contract, we think there is a case for the revision of the contract so as to give an improvement comparable with that given to officers of similar standing in the Indian Service of Engineers. On the other hand if the terms of the contract clearly contemplate the officer's employment in work of limited duration we see no reason for its revision.
- (c) Certain specialist officers have been appointed by the Local Governments and their pay is therefore subject to the vote of the Legislative Councils. We recommend that their cases should be treated generally on the lines of (a) and (b) above.

The same general principles should be applied to specialist officers in other departments, such as Forest Specialists, Agricultural Engineers, and to officers holding various miscellaneous appointments.

CHAPTER VII.

PASSAGES.

62. Hitherto Government has not provided passages for officers of the Services or their families when travelling to Europe on leave. The principle adopted has been that emoluments should be fixed on a scale sufficient to cover the cost of passages and that the officer should be left to make his own arrangements.

The evidence laid before us showed that the inadequacy of the existing rates of pay, combined with the great rise in shipping rates in recent years, has made it increasingly difficult for officers to meet passage charges. It is true that the Government now makes advances free of interest to cover the cost of passages; but these are repayable by instalments after the officer's return to duty, and in a large proportion of cases the married officer, especially, is confronted with the alternative of having either to incur a considerable burden of debt, or to postpone taking leave to the detriment of the health of himself and his family. In such cases the officer's efficiency must suffer, and we feel strongly that the granting of some relief in this regard would be in the interests of Government as well as of the officer concerned.

63. After reviewing the whole subject, we have decided to recommend that passages on the following scale should be granted to all officers of non-Asiatic domicile in the Superior Civil Services.

The officer himself should receive 4 return passages during his service (of the standard of P. & O. first class "B"), and, when married, his wife should be entitled to as many return passages as may be to his credit. In addition one single passage should be granted for each child.

The application of this scheme to officers already in the service presents certain difficulties, but we suggest the following scale, based upon the length of the officer's service:—

<i>Officer's service at the date when the scheme comes into effect.</i>	<i>Number of Return Passages for the Officer and his wife.</i>
Less than 7 years	4
Over 7 and less than 14 years	3
Over 14 and less than 21 years	2
21 years and over	1
With a single passage for each child.	

The family of an officer who dies in service should be repatriated at Government expense, even though he has exhausted the full number of passages admissible to himself and his family under these proposals.

The above scheme should be applicable to officers of all Superior Civil Services, of non-Asiatic domicile. It should also be extended to Indian officers of the Indian Civil Service who were recruited by the Secretary of State and who receive overseas pay, but should not extend to their families.

64. Apart from the passage concessions above referred to, we have recommended in paragraphs 92 and 93 of our Report, that certain measures of relief, in connection with medical attendance and limitation of house rent, should be granted to the Services, and we have given full weight to the financial value of all these concessions in fixing the new rates of overseas pay and remittance privilege which we have recommended in Chapter VI.

The measure of relief which the Services are intended to receive under our scheme must therefore be considered as a whole, and we regard it as essential that no portion of it should be regarded as less certain than another.

In this connection we are conscious of two factors which might defeat the objects of our proposals, or, at any rate, upset the balance of our combined scheme of relief. On the one hand, if the passage concessions were to be given in the form of an allowance, it would be votable from year to year and might be subject to a varying fate in the different Provinces. These risks and uncertainties would place the Services in a very unfair position and might render our proposal largely nugatory.

On the other hand, if the concession were to take the form of an unconditional increase of ordinary pay, which would be available for the individual officer to spend as he pleased, there would be the risk (emphasised by many Service witnesses) that it might be imprudently diverted to purposes other than that for which we had intended it, with serious consequences, possibly, both to the officer and his family.

In seeking a way out of this dilemma, we have regarded it as fundamental that the relief which we are recommending should be real, and not exposed to political or other risks.

In our subsequent Chapter on Safeguards (para. 85) we make certain recommendations with regard to the execution of a legal covenant, enforceable in the Courts, between every officer in the Superior Services and the authority which has appointed him. In such covenant, all details of the officer's terms and conditions of service should be clearly set forth, so that, in case of any breach of contract, he could seek the appropriate legal remedy.

This safeguard, to which we attach great importance as an *ultimate* security, must at best involve a slow and cumbersome procedure for the individual officer, who, meanwhile, unless and until the authorities concerned have accepted the principle, and executed the covenants, will have no protection at all with regard to allowances or concessions which are votable.

In the face of these circumstances, we propose the following solution which, in our opinion, obviates, so far at least as passages are concerned, the difficulties above referred to.

65. In arriving at our recommendations with regard to the new rates of overseas pay and remittance privilege, we have estimated that, averaging over a British officer's whole service, the money value of the passage concession might be taken as Rs.50 a month, and, in our financial calculations, we have proceeded throughout on that assumption.

We therefore recommend :—

- (a) That an addition of Rs.50, or such amount as may from time to time be deemed sufficient by Government for the purpose of financing the concession laid down in paragraph 63, should be credited monthly to the pay of all British members of the Superior Civil Services who are, in accordance with our recommendations, entitled to the grant of free passages. In the case of Indian officers who are entitled to passage concessions, probably Rs.25 a month would be sufficient. The said sums should be deducted at the source by the Accountant-General and transferred to a special " Passage Fund " in which the contributions thus made by every officer would be allowed to accumulate. This fund, which should be kept separate from all other Government accounts, should be administered by the Government concerned and managed in such a manner as they may deem fit. In particular they should have power to appropriate from the total of the Fund any sum which might from time to time constitute an available surplus after making the necessary provision for the passage charges. No officer would have any claim to any balance remaining in the fund after payment of the passages to which he was entitled.
- (b) When an officer requires funds to defray the expenses of the passages to which he is entitled under our recommendations in paragraph 63 he should apply to the Government concerned, or the official appointed by it for the purpose, and on proving that he is so entitled, and on production of the Steamship Company's invoice for the appropriate tickets, the Accountant-General should either pay the Company direct, or issue to the officer the equivalent amount to enable him to pay the charges himself.
- (c) The amount mentioned in clause (a) should not count towards pension or leave or furlough allowance of the officer concerned.

CHAPTER VIII.

PENSIONS.

66. Officers of the Services in India ordinarily retire at an age when heavy commitments have still to be met for the upbringing and education of children. Hence the Services, and particularly married officers, regard the adequacy of their pensions as no less important than the adequacy of their pay.

The representatives of the Services have pressed upon our attention that their pensions are inadequate, especially those of the Uncovenanted Services. They base their case, in the main, on the rise in the cost of living, including house accommodation, in India and in England since the war, and on the increase in the expenses of education. They also urge the following considerations :—

- (a) That the existing pension-scales bear little or no relation to the scales of pay, with the result that an officer who may have been in receipt of emoluments which enabled him to live in reasonable comfort finds himself, on retirement, reduced to an income on which he can only subsist with difficulty. This point has been similarly pressed by Indian members of the Uncovenanted Services.
- (b) That, although the present scales were based on the recommendations of a Royal Commission which reported so recently as 1915, the revision which was actually effected in 1919, was made before the great rise of prices in India, whilst any advantages then accruing to the English members of the Services from the prevailing high rate of exchange have disappeared.
- (c) That bonus additions to pensions have been awarded to the Home Civil Services to compensate for the post-war rise in prices.
- (d) That the pensions of civil officers in certain of the Crown Colonies have recently been substantially and permanently increased for the same reason.

(i) Indian Civil Service.

67. Under the present rules, the members of the Indian Civil Service, after 25 years, of which 21 years must have been "active" service, are entitled to a pension of Rs.10,666½, subject to a minimum of £1,000 if drawn in England. Towards this pension all members of the service, except Members of Council, were required to contribute 4 per cent. of their pay until the year 1919, when, in accordance with the recommendation of the Islington Commission, this system was abolished and Government assumed the charge of the full pension of £1,000 per annum.

A deduction of 4 per cent. is still made from pay, but the monies so accruing are credited to a provident fund, for the benefit of the officers concerned on their retirement.

It has been calculated that, under the old system, officers, during the full period of their service, contributed a sum which represented at the time of retirement £250 per annum towards their own pensions. The indirect result of the change effected in 1919 has, therefore, been to increase the amount of pension which Government provides. This increase is quite small in the case of those retiring within a few years of the introduction of the change, but it grows every year until those who retire some 20 years hence will receive the full £250 benefit. We do not feel able, in all the circumstances, to recommend any further increase.

Some concession with regard to this 4 per cent. contribution has recently been made in favour of those officers who would otherwise have derived little advantage from the change, and we have been pressed to recommend further concessions. After very careful consideration, we have come to the conclusion that the difficulties in the way of reopening this question are insuperable.

68. The cases of Members of Council and Governors of Provinces call for special consideration. The Islington Commission recommended that a special pension of £1,200 per annum should be sanctioned for Lieutenant-Governors of Provinces, but this recommendation was not adopted. The reformed system of Government has, however, invested the holders of these appointments with new and far-reaching responsibilities, and it is, in our opinion, but just and equitable that this fact should be recognised. We therefore recommend that members of the Indian Civil Service who attain to the rank of Member of Council should be given an increase of pension, at the rate of £50 per annum for each year of their service, as such, up to a maximum pension of £1,250. We further recommend that those who serve as Governors of Provinces should similarly be given an additional £100 for each year of service, as such, up to a maximum pension of £1,500 per annum.

69. We have also examined a proposal which has been placed before us that Indian Civil Service "Invalid Annuities" should be calculated on the same basis as proportionate pensions. This proposal involves certain assumptions which are, on the whole, undesirable, and we are unable to support it. We therefore recommend that no change should be made in the existing scale of Invalid Annuities, so far as the Indian Civil Service is concerned. We deal separately, in paragraph 72, with the question of Invalid Annuities for the Uncovenanted Services.

(ii) Uncovenanted Services.

70. In the case of these Services some increase of their pensions has long been recognised as overdue, and it was recommended by the MacDonnell Committee that the ordinary pension after 25 years' service should be raised to Rs.6,000. We concur in this view that the existing rates are unduly low, having regard to the status of the officers concerned, and we recommend the following permanent rates of pension :—

	<i>Present rate.</i>	<i>Proposed rate.</i>
(a) After 25 years' service.	Rs.5,000, equivalent at the privilege rate of 1s. 9d. the rupee to £437 10s., and rising by Rs.200 per annum to	Rs.6,000, equivalent at the privilege rate of 1s. 9d. the rupee to £525, and rising by Rs. 200 per annum to
(b) After 30 years' service.	Rs.6,000, equivalent at the privilege rate of 1s. 9d. the rupee to £525.	Rs.7,000, equivalent at the privilege rate of 1s. 9d. the rupee to £612 10s.
(c) Additional pensions, lower grade.	Rs.300 additional to pension due on the ordinary scale for each year of service in the grade up to a maximum of Rs.7,500 per annum, equivalent at the privilege rate of 1s. 9d. the rupee to £656 5s.	Rs.300 additional to pension due on the ordinary scale for each year of service in the grade up to a maximum of Rs.8,500 per annum, equivalent at the privilege rate of 1s. 9d. the rupee to £743 15s.
(d) Additional pensions, upper grade.	Rs.500 additional to pension due on the ordinary scale for each year of service in the grade up to a maximum of Rs.8,500 per annum, equivalent at the privilege rate of 1s. 9d. the rupee to £743 15s.	Rs.500 additional to pension due on the ordinary scale for each year of service in the grade up to a maximum of Rs.9,500 per annum, equivalent at the privilege rate of 1s. 9d. the rupee to £831 5s.

71. Numerous representations have reached us from retired officers of various Uncovenanted Services, pressing that if any increase of pension is granted to officers still serving, their claims also shall receive consideration. We have already laid down the principle, in other connections, that we are not prepared to make financial recommendations of a retrospective character, and we therefore regret our inability to reopen the case of these officers.

72. With regard to the present scales of invalid annuities for the superior Uncovenanted Services we are of opinion that they should be improved. We recommend that the limit of ten years before which an invalid annuity can be earned should be reduced

to seven, and that the existing scales should be raised as shown in the following table :—

Completed Years of Qualifying Service.		Uncovenanted Services. Invalid Gratuity or Pension.		Maximum. at 1s. 9d. Rs. to the rupee.	
1-6	Gratuity of 1 month's pay for each completed year of service.				
7	Pension of 7-sixtieths of average emoluments..			2,000	175
8	ditto 8-sixtieths ditto ..			2,350	205
9	ditto 9-sixtieths ditto ..			2,700	236
10	ditto 10-sixtieths ditto ..			3,000	262
11	ditto 11-sixtieths ditto ..			3,200	280
12	ditto 12-sixtieths ditto ..			3,400	297
13	ditto 13-sixtieths ditto ..			3,600	315
14	ditto 14-sixtieths ditto ..			3,800	332
15	ditto 15-sixtieths ditto ..			4,000	350
16	ditto 16-sixtieths ditto ..			4,200	367
17	ditto 17-sixtieths ditto ..			4,400	385
18	ditto 18-sixtieths ditto ..			4,600	402
19	ditto 19-sixtieths ditto ..			4,800	420
20	ditto 20-sixtieths ditto ..			5,000	437
21	ditto 21-sixtieths ditto ..			5,200	455
22	ditto 22-sixtieths ditto ..			5,400	472
23	ditto 23-sixtieths ditto ..			5,600	490
24	ditto 24-sixtieths ditto ..			5,800	507
25	} ditto 30-sixtieths ditto			6,000	525
26				6,200	542
27				6,400	560
28				6,600	577
29				6,800	595

(iii) *Miscellaneous Appointments and Services.*

(a) *Military officers serving in the Political Department or in other civil departments whose pensions are governed by the same rules as in the Political Department.*

73. The existing rule under which officers holding certain qualifying posts *continuously* for three years earn the maximum pension £1,000 or £900, as the case may be, does not in practice work equitably. Not only may it happen that the age limit of 55 comes into operation before the qualifying service is completed, but a brief period of reversion will disqualify an officer who may in fact have held one of these appointments for a total period exceeding that prescribed.

The difficulty could be met by applying the ordinary rules which govern the grant of similar additional pensions in the Civil Uncovenanted Services. There the principle is laid down that an additional pension is given for each completed year of qualifying service, and all service qualifies, whether continuous or not.

We therefore recommend that the existing rule requiring the qualifying service to be continuous should be revoked, and that the rule applying to the additional pensions of the Uncovenanted Services should be substituted.

We recommend further that each completed year of qualifying service should earn one-third of the additional pension appropriate to the post.

(b) *Women's Educational Service.*

This is one of the Uncovenanted All-India Services, appointed by the Secretary of State. The benefits which we have recommended for these Services generally will therefore be applicable to this case.

(c) *Chaplains.*

At present Chaplains obtain a pension of £480 per annum after 23 years' service. Until the year 1920 their pension was £365 per annum. When this revision was made it was intended that the pensions of Chaplains should approximate to those of the Uncovenanted Services. Actually the rates have been appreciably higher, owing to the accident that the pensions of Chaplains was fixed in sterling at a time when the exchange happened to stand at 2s. to the rupee. We see no sufficient reason why Chaplains should enjoy more favourable treatment than officers of the Uncovenanted Services. If our recommendation regarding the pensions of the latter be accepted, officers of those Services will receive a sterling pension of £525 per annum after 25 years' service or of £490 per annum after 23 years' service. This is practically the same as the pension of £480 per annum which Chaplains obtain after 23 years' service and we do not consider that there is any case for further improvement.

(d) *Judges of the High Courts.*

At present the pensions of High Court Judges are fixed at £1,200 per annum after 11½ years' service in that capacity. We are not prepared to recommend any increase in their rate of pension, which, in view of the comparatively short period of service after which it can be earned, we consider to be adequate.

CHAPTER IX.

PROPORTIONATE PENSIONS, PROVIDENT FUNDS, AND FAMILY PENSION FUNDS.

74. Numerous representations have been made to us in favour of modifying the present rules governing the grant of proportionate retiring pensions. Of these representations, the more important are:—

- (i) *That compensation for loss of career should be given in addition to proportionate pension in cases other than of compulsory retirement.*

We are unable to support this claim. In our view, the present rules governing the grant of proportionate pension are sufficiently generous for those who are not ready and willing to serve under the reformed system of government.

- (ii) *That the scheme for proportionate pensions should be extended to those officers who were recruited in 1919 and were prepared to come out to India before January 1, 1920, but who, for various reasons, and through no fault of their own, did not in fact arrive until after that date.*

We consider that these officers have a good claim for favourable consideration, and we recommend that the privilege of retiring on proportionate pension should be extended to them.

- (iii) *That the present rule under which the previous war service of such officers does not count as service for the purposes of proportionate pension is a violation of the undertaking that no officer should be prejudiced by reason of service during the war with the armed forces of the Crown.*

We are doubtful whether this grievance can be sustained, and are unable to recommend any change in the existing rule.

- (iv) *That the privilege of retirement on proportionate pension should be extended to members of the Central Services.*

This claim has been urged with great persistence, but we are unable to support it. Officers in the Central Services are obviously in a different position from members of the All-India Services employed under Local Governments. The Government of India may possibly be more susceptible than formerly to political pressure but constitutionally its position *vis-à-vis* these Services remains practically unchanged.

- (v) *That the right to retire on proportionate pension should be extended indefinitely.*

We have considered this claim, and recommend that in the case of all future British recruits to the All-India Services a rule should be made, and a clause inserted in their contracts to the like effect, that, if and when the field of service for which they have been recruited is transferred, it shall be open to them either :—

- (a) to retain their All-India status, or,
 (b) to waive their contracts with the Secretary of State and to enter into new contracts with the Local Governments concerned, or,

- (c) to retire on proportionate pension ; the option to remain open for one year from the date of transfer. We further recommend that existing members of the All-India Services now operating in reserved fields, who do not make use of their present privilege to retire on proportionate pension after action has been taken on the Report of the Statutory Commission of 1929, should be allowed to exercise the option above specified, if and when the field in which their Service operates is transferred. This concession should also be extended to all officers who joined the Services since 1st January, 1920.
- (vi) *That the existing rule should be revoked under which officers of the Indian Medical Service with less than 17 years' service are not eligible to retire on proportionate pension unless the military authorities are unable or unwilling to absorb them in military employment.*

We are unable to recommend any change in the existing rule in this respect.

Extraordinary Pensions.

75. We recommend that a new rule should be framed, or the existing rule modified, to cover the case of officers who lose their lives or are seriously injured, as an act of reprisal connected with their holding of a particular office, or resulting from action taken by them in their official capacity, even in cases when they are not actually engaged at the moment in the execution of their duty.

Provident Funds.

76. We are of opinion that for all future recruits the advisability of substituting provident funds for the present system of pensions should be most carefully considered. It is not practicable for us, within the time at our disposal, to work out a detailed scheme of provident funds for the various Services, but we recommend that the feasibility of establishing such funds in lieu of pensions should be thoroughly investigated, and, if the result prove acceptable to the Services and practicable from the standpoint of the finances of India, the change should be made without delay.

For the existing members of the Services the substitution of a Provident Fund for the present pension system presents obvious difficulties. This, in our view, is a matter which should be left for expert investigation. We have reason to believe that Indian members of the Services would generally prefer a provident fund to the existing pension system.

Family Pension Funds.

77. There is a general consensus of opinion in favour of the establishment of family pension funds for the remaining All-India Services, on the lines of that already existing for the India Civil Service. The Islington Commission recognised the necessity for a family pension fund for Services other than the Indian Civil Service, and it is understood that a scheme is at present being worked out by actuarial experts and that the requisite material has already been collected.

It is not apparent why the initiation of such a scheme has been so long delayed, and we are of opinion that steps should be taken to introduce it as soon as practicable.

78. With regard to the family pension fund of the Indian Civil Service, it is urged by members of the Service that the fund is not being managed as advantageously as it might be, from the point of view of the subscribers, who, it is alleged, are not receiving the full benefits to which they claim to be entitled, having regard to the admittedly prosperous financial position of the fund.

In view of the widespread uneasiness on this point which seems to exist in Service circles, we are of opinion that an independent actuarial investigation into the position of the fund, and the possibility of increasing the benefits derivable therefrom, should be undertaken, and that the result of this investigation should be communicated to all subscribers as soon as possible.

There is also force in the contention of several witnesses that, as the fund consists almost entirely of the subscribers' own money, they should be allowed to participate in its management. We recommend, therefore, that an independent Board, consisting of a retired member of the Service, a representative of the India Office, and an independent actuary, should be constituted to administer the fund, subject to the final control and supervision of the Secretary of State.

It has further been represented to us that, owing to the difference in social customs and in vital statistics between Indians and Europeans, it would be advisable to close the existing fund as soon as practicable and to open a new fund divided into Indian and European branches. We agree with this view. We understand that this question is already engaging the consideration of the Government of India and of the Secretary of State, and venture to hope that an early decision will be reached.

CHAPTER X.

SAFEGUARDS.

General.

79. It was only to be expected that the constitutional changes effected by the Government of India Act (1919) would lead to uneasiness among members of the Services with regard to the effect of these changes on the conditions under which they had previously

served. We were not surprised, therefore, to find in the evidence of the Services generally a widespread apprehension regarding the security of their position in various respects. Some of it was based on hypothetical rather than on actual conditions, but there are certain points on which we think it desirable that safeguards should be provided. It may not be necessary ever to invoke them, but their effect on the contentment, and therefore on the efficiency, of the Services will be none the less on that account.

One particular apprehension by which the Services showed themselves to be specially affected was with regard to the results which might follow if the control of the All-India Services were delegated by the Secretary of State to the Government of India. We have recommended in paragraph 13 that the Secretary of State should, for the present, retain his control in this respect.

80. It has also been represented to us that an officer's pay, his prospects, and consequently his pension, may be affected by disciplinary action on the part of a Local Government, or by unfair discrimination against him in matters of promotion or selection for higher appointments, and that the right of appeal to the Governor in such matters is prejudiced by the fact that the Governor himself has been a party to the order appealed against. How far there is good ground for apprehension in this matter we are not in a position to say, but we have made provision with regard to it in our proposals in Part I, Chapter IV, on the functions of the statutory Public Service Commission. Their effect is to secure the investigation by a quasi-judicial body, removed from all political associations, of complaints regarding any orders which materially affect an officer's position.

" Existing or Accruing Rights."

81. We have received a considerable body of representations arising out of the interpretation placed by the Law Officers of the Crown on the phrase " existing or accruing rights " in the proviso to Section 96 B (2) of the Government of India Act. This provides that " every person appointed before the commencement of the Government of India Act, 1919, by the Secretary of State in Council to the civil service of the Crown in India shall retain all his existing or accruing rights, or shall receive such compensation for the loss of any of them as the Secretary of State in Council may consider just and equitable."

The question has been referred to us by the Secretary of State in the circumstances set out in the Despatch which follows :

" 26th April, 1923.

" My Lord, In your Excellency's Government's Despatch in the Home Department, No. 10, dated 29th June last, you requested me to obtain an authoritative opinion as to the meaning to be attached to the expression ' existing or

accruing rights' in Section 96 B (2) of the Government of India Act. I considered your request in Council, and agreed that it was eminently desirable, from the point of view both of my own responsibilities and of the rights of the Services, that no uncertainty or misunderstanding should prevail as to the legal position created by this section. I accordingly referred the matter for the opinion of the Law Officers of the Crown. In view of the notorious difficulty of obtaining legal opinion upon questions which do not present a perfectly concrete issue, and of the wide generality of the terms of the section, I felt bound to confine the case presented to the Law Officers to the comparatively narrow issue raised in the memorial from the Central Provinces and Berar Association of Government Servants which accompanied your Despatch. The opinion which I have obtained cannot therefore be regarded as an exhaustive interpretation of the section, and even on the case as presented to them the Law Officers gave their opinion subject to a reservation as to the difficulty of giving particular answers to general questions.

"2. I am advised that the words 'accruing rights' in Section 96 B (2) mean all rights to which members of the Civil Services are entitled, whether by statute, or by rule having statutory force, or by regulation in force at the time of their entry into service. They do not, however, include prospects of promotion, except in cases where the promotion is no more than advancement by seniority to increased pay, as in the case of the various appointments borne upon the ordinary lists of time-scales of pay. In particular, they do not apply to general expectations of possible appointment to offices, such as those of Commissioner of a Division, which are not included in the ordinary time-scale lists, and the filling of which involves selection by merit. I am advised accordingly that the abolition of such appointments would give rise to no claims to compensation except to persons who were actually holding them at the time of their abolition. I am further advised that no method of filling such appointments which is not inconsistent with the Statute, even though it reduced the expectations of members of a particular service, would give rise to any claim to compensation on the part of any person whose actual tenure of an appointment was not thereby affected. Lastly, I am advised that the proviso to Section 96 B (2) applies not only to loss of rights (as defined above) resulting from the provisions of rules framed by the Secretary of State in Council in pursuance of the provisions of that sub-section, but also to a loss of rights resulting from rules or laws made by other authorities in exercise of powers delegated to them under the provisions of the same sub-section by the Secretary of State in Council.

“ 3. The foregoing represents the strictly legal results which, so far as they can be ascertained without reference to defined circumstances, must be held to flow from the actual words of this sub-section, and it is my intention to bring the situation which thus emerges to the notice of the Royal Commission on the Services as a matter for their consideration in its bearing on general service conditions, and with special reference to the observation of the Joint Select Committee on the Government of India Bill ‘that every precaution should be taken to secure to the public servants the career in life to which they looked forward when they were recruited.’ For it is clear that administrative changes might result in a loss of selection appointments so considerable as seriously to prejudice the reasonable prospects of the services. If, in my opinion, such a situation should arise, I shall not fail to examine it with a view to determining, in accordance with what I conceive to be the intention of the Joint Select Committee and of Parliament, what measure of relief can be granted to the service affected. It is desirable, however, that the question should first be examined in all its bearings by the Royal Commission, and I am hopeful that their recommendations may be of assistance to me in dealing with a difficult problem affecting the interests and security of those services for whose well being I am responsible.

“ 4. I propose, therefore, to lay before the Commission Your Excellency’s Government’s Despatch, with its enclosures, and the present Despatch, and I request that copies of this Despatch may also be supplied to all members of the All-India Services.”

82. The Services claim that whatever may be the legal interpretation of the words “existing or accruing rights,” the intention of the proviso was to secure to them their prospects of promotion to all higher posts existing at the time the Act was passed, or alternatively to secure for them compensation for the loss of such prospects through the abolition of these appointments.

We find ourselves unable to lay down any general *a priori* ruling as to what, if any, claims to compensation might justly be entertained by a member or the members of a Service in the event of the abolition of any existing post or class of posts; or as to what amount of compensation, if any, should be granted. Our difficulty lies in the fact that such questions can only be equitably decided in the light of the circumstances and merits of each case. We recommend, therefore, that the Secretary of State should refer such claims for compensation, as they arise, for consideration and report by the Public Service Commission, which, being the expert authority in India on all Service questions, will be well qualified to form a just opinion. The Indian members, however, would limit the references to the Public Service Com-

mission to cases other than those necessitated by retrenchment or curtailment of work. In such cases they consider there would be no ground for compensation except for the incumbent of the post abolished.

The Safeguarding of Pensions.

83. The apprehensions of the Services are not confined to the effect on the position of officers of orders by Local Governments in individual cases. They express grave concern at the prospect of future constitutional developments. In particular, we feel bound to note that we have found widespread anxiety with regard to the future security of pensions. We do not share this apprehension under existing circumstances, and we assume that, if any statutory change is made hereafter, involving the transfer of the financial control in this regard now exercised by the Secretary of State in Council, adequate provision would at the same time be made for safeguarding Service pensions.

The Commutation of Pensions.

84. Various proposals have been put before us in the direction of establishing or depositing funds in England equivalent to the capitalised value of pensions. We are unable to support these, as they might adversely affect the credit of the Government of India. We consider, however, that some extension of the right to commutation of pension should be made. At present an officer may not commute more than one-third of his pension. We think this proportion should be raised to one-half, and we also recommend that the rates at which the commutation value is calculated should be revised, year by year if necessary, on the basis of the rate of interest payable on loans raised by Government in any such year.

The Safeguard of a Legal Covenant.

85. As regards emoluments generally, we consider that, in all circumstances, the most practical form of safeguard would be a mutually binding legal covenant, enforceable in the Civil Courts, between the officer and the authority which has appointed him. We recommend therefore that such a contract should be entered into in the case of all future recruits, and that to secure the position of existing officers a similar contract should be entered into, so framed as to cover the remaining liabilities connected with their service and the privileges to which they may be entitled.

The general form of the contract might be somewhat on the lines of the existing Articles of Agreement adopted for the Indian Educational Service (see Appendix V). The appropriate and approved time-scale for the Service in which the officer is employed

should be inserted as a schedule, and additional clauses should be added securing, *inter alia*,

- (i) Leave rules not less liberal than those in existence when the contract was signed.
- (ii) The grant of passages.
- (iii) Remittance privileges, if any.
- (iv) Pension rules not less liberal than those in existence when the contract was signed.
- (v) The right to compensation on an adequate scale in the event of dismissal without due notice or in breach of definite conditions laid down.
- (vi) The right to retire on proportionate pension in certain circumstances.

In our proposals on the subject of the statutory Public Service Commission we have made recommendations with the object of securing that, in the event of a breach of such a contract by a Government, the aggrieved officer shall, in certain circumstances, be indemnified against legal expenses in prosecuting his claim in the Civil Courts.

86. In the event of the adoption of our recommendations under this head it will obviously be inappropriate to retain the title of "Uncovenanted" Services, and we suggest that "Departmental" Services might more accurately describe their position in future.

Votability of Government Contributions to Provident Funds.

87. Our attention has been drawn to the fact that some uncertainty prevails as to whether Government contributions to provident funds, given to certain officers in lieu of pensions, are or are not votable by legislative bodies. It is desirable that this uncertainty should be removed; and we suggest that the Governor-General should consider whether he might not construe such contributions as pensions within the meaning of the Government of India Act in accordance with Section 67 A (4) thereof, and that all Governors should consider the same point in accordance with Section 72 D (3).

It is obvious that a conflict of opinions in the matter would be unsatisfactory; and we venture to hope that all the authorities concerned will be able to accept the suggestion made above.

The Position of Specialist Officers.

88. Representations have been put before us by specialist officers regarding the insecurity of their tenure of appointment. Those appointed on a permanent basis by the Secretary of State cannot be removed from service without his sanction and their status in this respect is exactly the same as that of members of an All-India Service.

An officer who is serving on a contract for a definite period is in a different position. His services can clearly be dispensed with at the end of his contract; and such contract usually provides that it can be terminated by either side at 6 months' notice before the expiry of the stated term. This provision has, in the past, not been understood by officers as authorising Government to terminate their employment for reasons other than the unsatisfactory performance of their duties, but it has in some recent cases been used by Governments to terminate the contracts on grounds of economy. In this way an officer engaged on a five-year contract might find himself thrown out of employment after a year. The Secretary of State has held that in such cases the officer is clearly entitled to special compensation. We concur in this opinion, and recommend that the amount of the compensation might be fixed by the responsible Government in consultation with the Public Service Commission.

Position of All-India Officers not Appointed by the Secretary of State.

89. A number of ex-Army officers who were demobilised in India after the war were appointed to the Indian Police Service, not "by" the Secretary of State, but "with the approval of" the Secretary of State. Simultaneously, some of their comrades, who had returned to England on demobilisation, received similar appointments, which, however, were made "by" the Secretary of State. In consequence they acquired a measure of protection to which the officers appointed in India were not entitled. This places the latter in a disadvantageous position, inasmuch as their pay and pensions, unlike the pay and pensions of officers appointed by the Secretary of State, are subject to the vote of Legislative Councils. It is clearly anomalous that this difference should exist between members of the same Service, recruited under what were intended to be the same conditions. We therefore recommend that these officers should be reappointed by the Secretary of State from the date of their original appointment.

We have been given to understand that there may be a few officers, in other All-India Services, who are in a like anomalous position, and whose case might be given similar consideration.

CHAPTER XI.

HOUSE RENT, MEDICAL ATTENDANCE, AND LEAVE RULES.

House Rent.

90. The existing rules governing the rent payable by officers occupying houses supplied by Government are as follows:—

Interest is calculated on the capital cost of construction of the house and the cost to Government (if any) of the site. On houses built before 1915 the rate of interest taken is 3½ per cent. ;

on houses built later the rate of interest depends on the rate paid by Government for loans in the open market at the time the house was built. To the interest so calculated is added a percentage to cover the annual cost of maintenance, and the total is the standard rent.

This standard rent is charged to the officer occupying the house, but is subject to a maximum of 10 per cent. of his pay. The 10 per cent. limit, however, does not cover the rent of sanitary and electrical installations and fittings, if any.

In certain of the larger towns where rents are abnormally high and the number of official houses is insufficient for the Services, Government grants compensatory house allowances.

91. The main representations which have been made to us by the Services in this connection are :—

- (i) That Government should undertake a general obligation to provide houses for the Services at a maximum rent of 10 per cent. of pay.
- (ii) That the 10 per cent. of pay should cover all charges for rent, including interest on the capital cost of sanitary and electrical fittings.
- (iii) That the rules operate unequally as between officers in localities (for example, urban areas) where the cost of the site is high and in districts in which the main factor in the standard rent is the cost of construction.

92. We do not consider it practicable to place on Government a general obligation to build or rent houses sufficient to accommodate all officers, but subject to this we think that relief should be given and that it should take the following form :—

(a) *Houses Supplied by Government :*

- (i) In assessing rent, interest should be calculated on the cost of construction of the house and nothing should be included in respect of the cost (if any) to Government of the site.
- (ii) Wherever a general supply of electric power is or becomes available, or wherever a sewage system of drainage exists, the capital cost of the necessary installation and fittings should be included in the capital cost of the building.
- (iii) On the capital cost calculated as in (i) and (ii) above, the full rent of the house should be assessed at not more than 6 per cent. The full rent so calculated should be the annual rent payable by the tenant, provided that no Government tenant should have to pay more than 10 per cent. of his monthly emoluments for the period of his occupation of the house.

- (iv) The cost of any restoration or special repairs should not be added to the capital cost of the building, but any alterations which add to the accommodation, and are made at the tenant's request, should be added to the capital cost and the rent be raised in proportion.

(b) *Private Houses :*

Whenever it is necessary, no Government accommodation being available or until such accommodation is made available, to give relief to officers in large centres of population on account of the excessive rents charged by private landlords, that relief should be included in the compensatory local allowance. This relief should be calculated so as to cover on an average the excess, over 10 per cent. of the emoluments of such officers, which they are compelled to pay, on account of house rent, for accommodation reasonably sufficient for their status and proportionate to their pay.

Medical Attendance.

93. The almost universally expressed anxiety of British members of the Services in India to have access to British medical advice for themselves and their families is intelligible and, in our opinion, its provision is vital to their contentment.

In the geographical conditions of India, and in view of the increasing Indianisation of the Services, including the Medical, the adequate provision of qualified British medical attendance for the British members of the Services presents peculiar difficulties. The following solutions, based on the evidence laid before the Commission, appear to us to be the most practicable and we recommend them for adoption :—

- (a) The districts of a Province should be grouped, and a British medical officer (civil or military) should always be posted to one station in each group. This station should be within easy reach of each district in the group. The details of this grouping should be arranged by the Local Governments concerned, in consultation with the Government of India, and should be subject to the approval of the Secretary of State.
- (b) In stations where there is no British medical officer, travelling allowances for the officer or his family should be granted to and from the nearest station where there is such medical officer. Payment should be made on a certificate by the medical officer, countersigned, if desirable, by the head of the Medical Service in the Province. Alternatively, if more convenient or if the patient is not fit to travel, the expenses of the medical officer's visit (exclusive of his normal fee for attendance) should be defrayed by Government.

- (c) In the event of a case being of such a serious or special nature that the doctor first consulted does not feel able or willing to treat it, he may give a certificate authorising the patient to travel to the nearest station where adequate treatment can be given. This certificate should qualify the patient for the grant of travelling allowance as in (b) above.
- (d) In stations where only military medical officers are available their services should be at the disposal of civil officers and their families, upon payment of normal fees.
- (e) Officers should be entitled to free medical attendance as at present. If treated in hospital, they should not be liable for payment of medical, surgical, and nursing charges, but charges for board or special accommodation should be defrayed by the officers themselves. Normal fees should be chargeable for their wives and families.

94. The Services have pressed for free medical attendance for their wives and families. This concession, if granted, would be open to many objections and be capable of abuse. We are, therefore, unable to recommend it and believe that the proposals outlined above, taken in conjunction with the improvements in emoluments and other conditions of service which we have recommended elsewhere in this Report, will afford an adequate measure of relief in the directions in which it is most needed.

Leave Rules.

95. The reorganisation of the leave rules for European members of the Government Services, carried out as a result of the recommendations of the Islington Commission, resulted in a leave code which is generally recognised to be liberal. The only criticism of it which has been brought before us had reference to the restriction on the maximum amount of leave on average pay which may be granted. An officer is not permitted to take more than 8 months leave on full average pay at any one time, or to take during the whole of his service more than one-eleventh of the period spent on duty plus one year. It has been represented to us that both restrictions should be removed, and that, in addition to leave on average pay equivalent to one-eleventh of the period spent on duty, an officer should be allowed to commute the whole of the leave on half pay, admissible to him under the rules, into half the amount of leave on full average pay. These concessions could only be made at a heavy cost to Government, and, as we consider that the leave rules, as they stand, are sufficiently liberal and are widely recognised as such by the Services, we are unable to recommend any extension in the direction suggested.

PART III.

CHAPTER XII.

BURMA.

96. The case of Burma presents some special features as compared with the rest of India. Higher education, both secondary and collegiate, is in a very backward state and there has been a marked reluctance on the part of Burmans to attend Indian colleges. Technical education is even less advanced, owing partly to lack of training facilities and partly to the disinclination, hitherto, of the Burman to adopt a professional career.

Some improvement is now being manifested under both these heads but it must be some years before an adequate supply of qualified Burmans can be available to man the Public Services. For example, it was only in 1923 that, for the first time, a Burman was successful in the competitive examination for the Indian Civil Service, whilst four Burmans in all have been nominated to that Service.

In these circumstances the question as to whether the same rates of "Indianisation" which we have recommended in the case of India as a whole should be adopted for Burma presents obvious difficulties. There are not at present sufficient qualified Burmans available to fill the vacancies. At the same time experience shows that Burman politicians and Burman public opinion in general would not accept any proposals for Burma which fell short in any respect of similar proposals for India. This is evidently also the view of the Local Government, which has intimated to us its desire that any recommendations which we might make under our Terms of Reference should be equally applicable to Burma.

This may be sound, and even inevitable, as a political principle, but it does not solve the difficulty of obtaining qualified Burmans for the All-India Services in Burma—except in so far as they can be promoted from the Provincial personnel. This is an unsatisfactory substitute for entry by examination, particularly in Burma where the absence of racial, religious, and caste differences offers a wider opportunity for securing the best men by educational competition than can be the case in the rest of India.

97. For the reasons above stated, however, we make our recommendations with regard to Indianisation and provincialisation applicable to the whole of India including Burma and, in respect of the All-India Services, we leave it to the Government of India in consultation with the Burma Government to make such adjustments as may be necessary to suit local conditions.

The question of the increased emoluments, passage and other concessions, which we have recommended for the Services presents no difficulty in their application to Burma. Over and above these, however, there is the local "Burma Allowance," necessitated by the abnormal cost of living in that particular Province.

This was fixed only so lately as 1919 and we did not think it necessary to suggest any revision of its terms or conditions.

The Public Service Commission, the establishment of which we have recommended for India, will of course include Burma in its sphere of operations. So long as Europeans serving in that Province belong to the "All-India" Services it is necessary that they should enjoy the same protection as their colleagues serving in other parts of India.

98. Our general conclusion, therefore, is that we make no special or divergent recommendations with regard to the Services in Burma, and are prepared to leave it to the Secretary of State, in consultation with the Government of India and the Local Government, to make any necessary adjustments in regard to the distribution of British recruits to the All-India Services as between Burma and other Provinces.

SPECIAL NOTE

REGARDING THE RECOMMENDATIONS CONTAINED IN THIS REPORT.

99. Various representations have been made to us by Service Associations regarding the date from which our recommendations relating to Service Conditions should take effect and we have been urged to make them retrospective.

After careful consideration, we record our view that in the present state of the finances of India, our recommendations should take effect as from the commencement of the financial year 1924-25.

CHAPTER XIII.

RECRUITMENT.

100. For some years past the Secretary of State has found it increasingly difficult to secure the full complement of British recruits required for the All-India Services. We recognise the importance of this fact, and in all our proposals for improving and safeguarding the conditions of service we have borne it in mind. We have contemplated not only the effect of better prospects as an encouragement to recruits, but also of the reaction on recruitment of greater contentment among existing members of the Services, whose views and feelings soon penetrate to British schools and universities, and must always be, as they have been in the past, a potent factor in determining the supply of candidates. We hope that our proposals, if adopted, will go far to check the recent decline and to establish once more the requisite flow of highly qualified recruits for all the Services.

101. We think it desirable, however, to comment specially on the question of recruitment for the Indian Civil Service. We have examined the list of deterrents to recruitment drawn up by the MacDonnell Committee (paragraph 10), and we believe that their force will be very greatly diminished if our proposals are adopted. What has deterred recruits more than any question of material or financial conditions, has been an apprehension that some future political developments in India might bring their careers to a premature end. We admit that no absolute guarantee can be given against such a contingency ; there is no career, after all, which is absolutely safe in this respect ; but we think that anxiety on this point can easily be exaggerated. We are convinced that India still needs the services of capable and broad-minded Englishmen and will long continue to need them ; and we hope that Englishmen will not be slower in the future to meet the need than they have been in the past. At the same time we are anxious that such arrangements should be made as would give to every officer at least a reasonable measure of security on the financial side.

102. There seem to be two possible contingencies. First, as the development of self-government in India proceeds, posts or classes of posts now held by members of the Indian Civil Service may be abolished. We have dealt with this matter in paragraph 82 above.

Secondly, an officer, once recruited, may come to find the conditions of his service so uncongenial as to make him desire to withdraw from that service at any cost. It is important at this point to distinguish between the opinions of members of the Services who were in India before the Reforms scheme came into operation and those who have been recruited since. It is universally admitted that under changed political and economic conditions the public service in India cannot be exactly what it was before the war. Loyal as they have been in their attempt to make the reformed system a success, it is only natural that some officers should regret the passing of the old order, in which they formed part of a wholly bureaucratic system, unexposed to criticism or interference on the part of representatives of the people. Officers, however, who have never experienced pre-Reform conditions are naturally able to judge the existing system on its merits and not to be biassed by comparing it with a past they have not known themselves. With this in view we specially requested that some members of the Services in every Province, who had come to India since 1919, should answer our questionnaires and give oral evidence before us. The results were on the whole encouraging. These young officers looked forward with anxiety to their financial future unless the existing rates of pay were modified, and, like older officers, they expressed a sense of insecurity as regards both their pensions and the possible effects of further constitutional change. But

when it was put to them that in all these respects they might be adequately safeguarded (as we think they may be if our proposals under these heads are adopted) most of them declared that, on this hypothesis, they could look forward to a congenial and useful career. They recognised that the life of a member of the Indian Civil Service is still, as it has always been, a big life, involving great responsibility. Nor in their opinion has it lost what used to be one of its chief attractions—the possibility of friendly contact with the rural population. They declared that their relations with the people amongst whom they are living are cordial.

103. In the light of this evidence and of the general situation as we saw it, we believe that the risk that an officer might find the conditions of his service too uncongenial is only a possibility, and in any case it is only likely to arise in the event of an officer being moved from the reserved field of government to the field which is managed by Ministers and Legislative Councils. It is, we hold, desirable to relieve recruits of any apprehensions on this account by providing them with a regular means of withdrawal without great financial injury.

This was one of our two reasons for recommending that all future recruits should be given the option defined in paragraph 74, if and when the field of administration in which their service lies should be transferred. Our other reason it may be said here, was a desire to make the system elastic in order, in some degree, to accommodate the future of the Services to the further development of self government in India.

We trust that the difficulty in obtaining recruits will be largely overcome if the above proposals are adopted, but we think that, over and beyond them, efforts should be made to stimulate recruitment by well-considered propaganda. We think it desirable that the India Office should establish some permanent *liaison* with the British Universities, and we call attention to the suggestions made in Annexure III to the Report of the MacDonnell Committee (see Appendix VI), with the rider that similar arrangements to those there proposed with regard to Oxford and Cambridge should be considered with regard to the other Universities.

Finally, we think that a full and candid explanation of the present position in India, and of the conditions of service under the reformed system, with precise details as to pay, pensions and other privileges, as also of the measures of protection and security provided (in the event of our proposals being adopted), should be prepared at the India Office and made available for prospective recruits.

Methods of Recruitment.

104 We now come to the question of the system by which recruits for the Indian Civil Service should be selected. Time has not allowed us to elicit the opinions of University authorities

upon the spot ; but we circulated a questionnaire among them all, and have received clear and valuable replies. It is in the light of the opinions thus expressed that we make the following proposals :—

- (a) We recommend that the age limit for candidates for the Indian Civil Service Examination in London should remain as fixed for the present year (i.e., a candidate must have attained the age of 21 and must not have attained the age of 24 on the 1st day of August), and that the Secretary of State should reconsider his decision to change the age limits in 1925 to 21-23. We make this recommendation not only in the interest of British but of Indian candidates as well. All the Universities (with the exception of two which did not give their opinion on the point) approved the maintenance of the age limit at 24. We also feel that it is clearly desirable to keep the field of recruitment as wide as practicable both in India and in England.
- (b) It was a corollary of the decision to reduce the upper age limit to 23 years that the period of probation for recruits should be extended from one year to two. Since it is clearly undesirable that recruits should begin their work in India above the age of 25, the retention of the present probation period of one year necessarily follows from our recommendation to keep the upper age limit at 24. Whatever may be said in favour of extending the probation beyond one year, we feel that under present conditions the arguments for maintaining the higher age limit are decisive.
- (c) As to the method by which recruits for the Indian Civil Service should be chosen, we recommend that the present system should be continued. Some Universities and other witnesses have urged that a system of selection should be adopted instead of open competitive examination. The argument is that, since the new conditions in India require that members of the Indian Civil Service should possess special gifts of character and adaptability besides purely intellectual attainment, it would be safer to choose recruits by selection rather than by examination. We are convinced, however, that the arguments which have so long held the field against the method of selection for any Civil Service are still decisive, and that appointment to the Indian Civil Service must not be exposed to any charges, just or unjust, of political or personal influence. A more attractive suggestion is that the competitive examination should be preceded by selection, but to this proposal likewise the obstacles seem to us unsurmount-

able. We fear that good candidates might be shy of exposing themselves to the possibility of rejection by a selection board on other than intellectual grounds, and also that the list of selected candidates would inevitably be criticised by Universities or individuals as the product of prejudice or favouritism. In the light of all these considerations we recommend that the existing system of open competitive examination should be continued.

Short-term Contracts.

105. It was suggested by some University authorities, and also by some witnesses who gave evidence in India, that European recruits for all the All-India Services should in future be engaged on short-term renewable contracts. We regard this as a not impossible expedient with regard to special appointments in the more technical services. If individuals were needed to carry through a specific project of engineering, or to engage on a particular and limited field of scientific research, or to occupy for a term of years a particular professorial chair, the system of short-term contract might be adopted ; but even in such cases those drawbacks would not be entirely absent which we feel are fatal to the suggestion as applied to the Services as a whole. These drawbacks are as follows: a new European recruit in any Indian Service does not become efficient until he has accustomed himself to the special conditions of India, learned the ways of its people, and mastered in some degree the local language. It may be said in fact that his efficiency increases in proportion to his length of service. From the point of view of the Governments concerned, therefore, a recruit engaged on a short-term contract is a highly uneconomical proposition, for, while Government has paid for his period of apprenticeship, it may lose him just at the moment when he has acquired some measure of real efficiency. The proposition is similarly disadvantageous to the recruit. After spending some years in acquiring the special qualifications for efficient service in India he may find it impossible to renew his contract, with the result that he is cast upon the world with qualifications which, however valuable in India, may be of little or no value elsewhere. It must not be supposed, for instance, that an expert in Indian forestry who has lost his post in India would be regarded as an expert in the forest work of any other Continent. The uncertainty of contiguous employment would therefore militate against the chance of obtaining first-rate recruits. These considerations apply with special force to the Indian Civil Service and the Indian Police Service. In these Services the efficiency of the officer is the result, above all else, of prolonged contact with the Indian people. It is not for some seven or eight years that he is qualified to hold the post for which he was recruited ; and several more years must pass before

he is fit for the higher appointments. It would clearly be unwise, therefore, for Government to recruit such officers on a short-term basis. For a member of these Services, similarly, since he is engaged only in administrative or executive work, the non-renewal of a contract would mean financial disaster; for, however high his value in India, he would have no special qualifications for obtaining employment in any other country. It is not surprising, therefore, that, except as regards such special technical duties as are referred to above, the great mass of evidence put before us was against the principle of short-term contracts. We recommend accordingly that officers should be recruited for All-India Services as at present on the basis of a permanent career.

CHAPTER XIV.

GENERAL.

Procedure as to Evidence.

106. At the very outset of our enquiry we were confronted with a difficulty which materially affected our subsequent proceedings. In our view it was of paramount importance that, to guide us in our investigation, we should be able to ascertain the genuine opinions of witnesses on the matters at issue, however confidential or controversial the latter might be. There were likely to be many witnesses, Indian as well as European, who would shrink from expressing, in public, opinions which they conscientiously held but which if published in the press might involve them in political controversy. Had the Commission decided that it would hear no evidence which was not given in public, witnesses of this kind—who as it proved were by no means the most vehement in their tone or the most extreme in their demands—would, to a large extent, have declined to speak freely. Such a result would have prejudiced the value of our enquiry, and we came to the unanimous decision that the choice as to whether his evidence should be given in public or in private should be left unreservedly to each individual witness. If he decided to be heard in public, representatives of the press were admitted to record his oral evidence, and received his written statement as well. Those witnesses, on the other hand, who asked to be heard in private were given an assurance that neither their oral nor their written evidence would at any time be made public.

107. The record shows that, of the 411 witnesses who gave oral evidence, only 152 elected to be heard in public. It is obvious that only the evidence of these 152 witnesses could be published, and this would inevitably present a one-sided picture of the case which has been laid before us. We have therefore come to the conclusion that no transcript of the evidence can be appended to our Report and that we must be content with depositing a complete and verbatim record with the Secretary of State.

Interdependence of Agreed Conclusions.

108. Finally, in submitting this our Report we wish to emphasise that we regard its main proposals as vitally interdependent, and that, unless all are given effect to, violence will be done, not merely to the spirit of compromise which has inspired our agreed conclusions, but to the whole structure of our recommendations.

We would also venture to urge that there should be as little delay as possible in considering and acting upon our proposals. We have striven to respond to the official request that we should treat our enquiry as a matter of urgency, and having done so we suggest that the position is one in which the principle of *bis dat qui cito dat* is of special application.

CHAPTER XV.

109. SUMMARY OF RECOMMENDATIONS.

APPOINTMENT AND CONTROL OF THE SERVICES.

- | | PARAS. |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| <i>(a) Services employed in reserved fields.</i> | |
| (i) The All-India Services employed in reserved fields of administration should continue to be appointed and controlled by the Secretary of State for India in Council | 13 |
| <i>(b) Services employed in transferred fields.</i> | |
| (ii) For the purposes of Local Governments, no further recruitment should be made to the All-India Services as such, operating in transferred fields. The personnel required for these branches of administration should, in future, be recruited by Local Governments (For the Medical Services see v, vi, vii below) | 14-15, 17 |
| (iii) Local Governments should have power to make rules to regulate not only the Public Services which will take the place of the present All-India Services operating in transferred fields, but also the existing Provincial Services. The Secretary of State should make the necessary delegation of powers under Section 96 B of the Government of India Act accordingly. As a corollary, Local Legislatures should pass Public Service Acts regulating these Services .. | 16 |
| <i>(c) Central Services.</i> | |
| (iv) Appointments to certain of these Services as specified in paragraph 19 should be made by the Secretary of State. The Government of India should appoint to the remainder | 18-19 |

REORGANISATION OF MEDICAL SERVICES.

PARAS

- (v) A new Civil Medical Service should be constituted in each Province and recruited by competitive examinations held both in England and in India, the medical needs of both the British and Indian Armies in India being met, in future, by the "R.A.M.C. (India)." Every officer of the new Provincial Civil Medical Services should be liable for service with the R.A.M.C. (India) in the event of general mobilisation 20-23c
- (vi) To meet the medical needs of British officers in the Civil Services and their families, a minimum number of British officers should be maintained in the Civil Medical Service herein proposed. These minima should be prescribed for each Province by the Secretary of State, on whom, in the last resort, should rest the responsibility for their maintenance. Of this British element, one half or the number required for the military reserve whichever is the larger, should be reserved for British officers to be seconded from the R.A.M.C. (India). In default of the remainder being forthcoming by competitive examination for the Civil Medical Service, the deficiency should be made up by increased seconding from the R.A.M.C. (India) or, if necessary, by special additional recruitment for that purpose 23 d, e, f,
- (vii) Subject to the existing rights of present members of the Indian Medical Service, all scientific chairs in Government Colleges and Hospitals, should, in future, be thrown open to all candidates, the clinical chairs being reserved for members of the Civil Medical Services, however recruited, so long as fit candidates are available. 23g

THE PUBLIC SERVICE COMMISSION.

- (viii) The Public Service Commission contemplated by the Government of India Act should be constituted without further delay. It should be an All-India body and consist of five Commissioners of the highest public standing, detached so far as practicable from political associations and possessing, in the case of two of their number at least, high judicial or legal qualifications 24-26
- (ix) The functions of the Commission should fall, at the outset, into two categories, (a) recruitment, (b) certain functions of a quasi-judicial character in connection with the disciplinary control and protection of the Services 27

- (x) As regards (a), it should be charged with the duty of recruitment for the All-India Services, as the agent of the Secretary of State, so far as it is carried out in India, and of recruitment for the Central Services (and, if a Local Government should so desire, for the Provincial Services) as the agent of the Secretary of State, the Government of India or Local Government as the case may be. The Commission should also be the final authority for determining, in consultation with the Secretary of State, the Government of India or Local Governments, as the case may be, the standards of qualification and the methods of examination for the Civil Services so far as recruitment in India is concerned PARAS. 27
- (xi) As regards (b), appeals to the Governor-General in Council by an aggrieved officer against such orders of Local Governments as are declared by the Governor-General in Council to be appealable should be referred to the Commission, which should report its findings to the Governor-General in Council and its recommendations as to action, without prejudice to the right of appeal of the aggrieved officer to the Secretary of State provided the Commission certify his case as a fit one for such appeal. Appeals from the Government of India which now lie to the Secretary of State should, in the first instance, be referred to the Commission in the same manner as in the case of appeals to the Government of India, and the Commission should submit its report to the Secretary of State. When a breach of the legal covenant (see recommendation liii) between an officer and the appointing authority is alleged, the Commission should certify whether *prima facie* it is a fit case for adjudication in a Civil Court. If such certified case is sustained by the Court, the whole costs should be defrayed by the Government concerned 27-28
- (xii) Apart from the determination of standards of qualification and methods of examination the Commission would not ordinarily be concerned with Provincial Services. Its knowledge and experience would merely be placed at the disposal of Local Governments if desired. The Chairmen of Provincial Selection Boards would constitute the link between the Commission and the Local Governments 26, 29-30

INDIANISATION.

PARAS.

Indian Civil Service.

- (xiii) A proportion of 50 per cent. Europeans and 50 per cent. Indians in the cadre should be attained within about 15 years from the time that the new rate of recruitment recommended comes into force. It has been calculated, on certain assumptions regarding abnormal retirements, that recruitment on the basis of 40 per cent. Indians directly recruited, and 20 per cent. Indians promoted from the Provincial Service, will produce that result 35-36

Indian Police Service.

- (xiv) Out of every 100 recruits, 50 should be Europeans directly recruited, 30 should be Indians directly recruited, and the remaining 20 should be Indians obtained by promotion from the Provincial Services. On certain assumptions regarding abnormal retirements, the corresponding cadre of 50-50 should be attained in about 25 years from the time that the new rate of recruitment comes into force. In any year in which the full quota of 30 per cent. directly recruited Indians is not obtained by open competition, the balance should be made good by additional promotion, preferably of young officers of not more than five years' service who have been directly recruited as Deputy Superintendents of Police .. 37-38

Indian Forest Service.

- (xv) Recruitment should be in the ratio of 75 per cent. Indians and 25 per cent. Europeans in those Provinces in which Forest administration is reserved .. 39

Indian Service of Engineers.

- (xvi) Recruitment for that portion of the cadre working entirely in the Irrigation Branch in Provinces in which it has been separated from the cadre working in the Buildings and Roads Branch should be in the ratio of 40 per cent. Europeans, 40 per cent. directly recruited Indians and 20 per cent. Indians promoted from the Provincial Service. In those Provinces in which no division of the cadre has been made there should be no change in the existing ratio of recruitment for the combined cadre.. .. . 40

(xvii)	<i>Central Services.</i>	PARAS.
	(a) <i>Political Department.</i>	
	Twenty-five per cent. of the total number of officers recruited annually should be Indians, who should be obtained, as at present, from the Indian Civil Service, the Provincial Civil Service and the Indian Army	42a
	(b) <i>Imperial Customs Service.</i>	
	Recruitment should remain on the present basis, i.e., not less than half the vacancies are to be filled by appointment in India of statutory natives of India	42b
	(c) <i>Superior Telegraph and Wireless Branch.</i>	
	Recruitment should be 25 per cent. in England and 75 per cent. in India	42c
	(d) <i>State Railway Engineers: Superior Revenue Establishment, State Railways.</i>	
	The extension of the existing training facilities in India for these Services should be pushed forward in order that recruitment in India may be advanced so soon as practicable up to 75 per cent. of the total number of vacancies in the Railway Departments as a whole, the remaining 25 per cent. being recruited in England	42d
	(e) Recruitment for the remaining Central Services should be at the discretion of the Government of India	42e
	(f) In services dealt with in (b), (c) and (d), recruitment should be by open competition	42f

THE PAY OF THE SERVICES.

All-India Services.

(xviii)	Apart from the Indian Police Service and the Indian Service of Engineers, it is not proposed to increase the basic pay of the Services. In the Indian Police Service the basic pay of the inferior scale should be raised by Rs.25 a month. The basic pay of the superior scale which begins at the 6th year of service should be increased by Rs.50 a month up to the 10th year of service, then by Rs.75 a month to the 13th year of service, then by Rs.100 a month for the ensuing four years, then by Rs.75, Rs.50 and Rs.25 a month for the 18th, 19th and 20th year of service, thereafter remaining as at present..	51-52
	The technical pay of the Indian Service of Engineers should be reckoned as part of the basic pay.. ..	59

- (xix) For Services other than the Indian Police Service and the Women's Branch of the Indian Educational Service, the rise in overseas pay from Rs.150 where it occurs, should be to Rs.250 instead of Rs.200 as at present; while from the 12th year of service onwards the rate of overseas pay should be raised from Rs.250 to Rs.300. In the Indian Police Service, recruits for which are about three years younger than in the other Services, the rupee rates of overseas pay should be Rs.100 in the first three years, Rs.125 in the fourth, Rs.150 in the next four years, Rs.250 in the next six years, and Rs.300 in the 15th year and thereafter to the end of the time scale 53
- (xx) In all Services, including the Indian Police Service but not the Women's Branch of the Indian Educational Service, from the 5th year of service onwards, every officer of non-Asiatic domicile should be entitled to remit his total overseas pay through the High Commissioner at 2s. to the rupee or to draw it in London in sterling at that rate. Indian members of the Services who are already entitled to overseas pay should draw the increase proposed, but should only be entitled to the remittance privilege if they can satisfy the High Commissioner that they have wives or children in Europe 54
- (xxi) Officers promoted to the selection grade in the Indian Police Service, the Indian Medical Service, the Indian Agricultural Service, the Indian Veterinary Service, and to the senior and junior selection grades in the Indian Educational Service should draw the maximum overseas pay and receive the sterling advantage described in (xix) and (xx) respectively 54
- (xxii) The pay of officers holding lower administrative posts, i.e., Deputy Inspectors General of Police, Superintending Engineers and Conservators of Forests, should be fixed at Rs.2,150 instead of the present incremental pay of Rs.1,750-100-2,150. .. 55
- (xxiii) With regard to other administrative posts above the time-scale, the divergent views of the English and Indian Members respectively are set out in Appendix IV. 55
- (xxiv) The Women's Educational Service have a claim to some improvement in their emoluments, but not necessarily to the same extent as that recommended for the All-India Services generally. The Government of India should give special consideration to this case and make the necessary recommendation to the Secretary of State 56

Central Services.

PARAS.

- (xxv) In principle, the concessions proposed for members of the All-India Services should *mutatis mutandis* be granted to all European officers in the Central Services appointed by the Secretary of State and to those European officers who, though appointed by the Government of India, were so appointed on the basis of a non-Asiatic domicile 57

Miscellaneous.

- (xxvi) Officers appointed in future to the judicial branch of the Indian Civil Service should not receive "judicial pay." It should not, however, be withdrawn from existing recipients 58
- (xxvii) The "technical" pay of the Superior Telegraph Branch should be reckoned as part of the basic pay 59
- (xxviii) Military officers serving in the Political Department should receive the same pay as officers of the Indian Civil Service in that Department 60
- (xxix) Public Works Department specialist officers appointed by the Secretary of State and holding permanent appointments should receive the same concessions as officers of the Indian Service of Engineers. In the case of those specialists appointed by the Secretary of State and serving under contract, if their contract contains a clear implication that permanent employment is contemplated subject to approved service, such contract should be revised to give an improvement comparable with that proposed for the Indian Service of Engineers. The cases of specialist officers appointed by Local Governments should be treated generally on the above lines. The same general principles apply also to specialist officers in other departments such as forest specialists, agricultural engineers and officers holding various miscellaneous appointments 61

PASSAGES.

- (xxx) An Officer of non-Asiatic domicile in the Superior Civil Services should receive four return passages during his service (of the standard of P. & O. First Class B) and, if married, his wife should be entitled to as many return passages as may be to his credit. One single passage should be granted to each child 62-63
- (xxxii) Officers already in the service, who have served less than 7 years, should be entitled to four return passages for themselves and their wives, those with over 7 years and less than 14 years should be entitled

- to three, those with over 14 years' and less than 21 years' service should be entitled to two, and officers with 21 years' service and over to one. The scheme should be extended to Indian officers in the Indian Civil Service who were recruited by the Secretary of State and who receive overseas pay but should not extend to their families 63
- (xxxii) The family of an officer who dies in service should be repatriated at Government expense even though he has exhausted the full number of passages admissible 63
- (xxxiii) An addition of Rs.50 or such amount as may from time to time be deemed sufficient by Government for the purpose of financing the above concessions, should be credited monthly to the pay of all British members of the Superior Civil Services entitled to passage concessions (probably Rs.25 a month will suffice for Indian members). This sum should be deducted at the source and transferred to a special " Passage Fund " in which the contributions thus made by every officer should accumulate and on which an officer requiring funds for the payment of passages should be allowed to draw. Any surplus in this fund will revert to Government. The monthly additions credited to pay under this proposal should not count towards pension, or leave or furlough allowance 64-65

PENSIONS.

Indian Civil Service.

- (xxxiv) Having regard to the fact that in 1919 officers were relieved of the necessity of contributing 4 per cent. of their salary towards their pensions, no increase is recommended in the ordinary pension of this Service, nor is it possible to reopen the question of extending the recent concessions made regarding the refund of past contributions 67
- (xxxv) Members of the Indian Civil Service, who attain to the rank of Members of Council, should be given an increased pension at the rate of £50 per annum for each year of service, as such, up to a maximum pension of £1,250. Those who serve as Governors of Provinces should similarly be given £100 for each year of service, as such, up to a maximum pension of £1,500 per annum. 68
- (xxxvi) No change should be made in the existing scale of invalid annuities so far as the Indian Civil Service is concerned 69

Uncovenanted Services.

- | | PARAS. |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| (xxxvii) The present pension of Rs.5,000 per annum, earned after 25 years' service (equivalent at the privilege rate of 1s. 9d. to the rupee to £437 10s.), rising by Rs.200 per annum to Rs.6,000 after 30 years' service (equivalent to £525 per annum), should be increased to Rs.6,000 and Rs.7,000 respectively, i.e., to £525 and £612 10s. per annum respectively. The maximum pensions, taking account of additional pensions earned by service in higher appointments, will then become Rs.8,500 (lower grade) and Rs.9,500 (upper grade), equivalent at 1s. 9d. to £743 15s. and £831 5s. per annum respectively | 70 |
| (xxxviii) The limit of 10 years before which an invalid annuity can be earned in the Uncovenanted Services should be reduced to seven, and the existing maxima raised, as shown on page 41 | 72 |

PROPORTIONATE PENSIONS.

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|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| (xxxix) No addition to proportionate pension should be given as compensation for loss of career on voluntary retirement | 74i |
| (xl) The privilege of retiring on proportionate pension should be extended to officers recruited in 1919 who, through no fault of their own, did not arrive in India before 1st January, 1920.. .. . | 74ii |
| (xli) No change should be made in the existing rule laying down that war service of officers prior to their appointment does not count as service for the purposes of proportionate pension | 74iii |
| (xlii) The privilege of retirement on proportionate pension should not be extended to members of the Central Services | 74iv |
| (xliii) A rule should be made and a clause inserted in the contracts (see paragraph 74) of all future British recruits to the All-India Services, to the effect that if and when the field of service for which they have been recruited is transferred, it shall be open to them either :— | |
| (a) To retain their All-India status ; | |
| (b) To waive their contracts with the Secretary of State and to enter into new contracts with the Local Governments concerned ; or • | |
| (c) To retire on proportionate pension, the option to remain open for one year from the date of transfer | 74v |

- (xliv) Existing members of the All-India Services now operating in reserved fields, who do not make use of their privilege of retiring on proportionate pension before action has been taken on the report of the Statutory Commission of 1929, and officers who joined the service since 1st January, 1920, should be allowed the option in (xliii), if and when the field in which their service operates is transferred 74v
- (xlv) The existing rule should be maintained under which officers of the Indian Medical Service in civil employ of less than 17 years' service, may not retire on proportionate pension unless the military authorities are unable or unwilling to absorb them in military employ 74vi

EXTRAORDINARY PENSIONS.

- (xlvi) A new rule should be made to cover the case of officers killed or injured whilst not actually in the execution of their duty, but for reasons connected with their official position or actions 75

PROVIDENT FUNDS.

- (xlvii) The advisability of substituting provident funds for pensions for future recruits should be carefully considered. If the change is feasible, and acceptable to the Services, it should be made without delay. The application of such a scheme to present members of the Services should also receive expert examination 76

FAMILY PENSION FUNDS.

- (xlviii) Family Pension Funds, on the lines of that already existing for the Indian Civil Service, should be introduced for the other All-India Services as soon as practicable 77
- (xlix) An independent actuarial investigation into the position of the Indian Civil Service Family Pension Fund should be undertaken as soon as possible. A Board consisting of a retired member of the Service, a representative of the India Office and an independent actuary should be constituted to administer the Fund, subject to the final control and supervision of the Secretary of State... 78
- (l) The existing Indian Civil Service Family Pension Fund should be closed as soon as practicable and a new fund opened, divided into Indian and European branches 78

SAFEGUARDS.

PARAS.

" Existing or Accruing Rights."

- (li) The Secretary of State should refer claims from a member or the members of a Service for compensation for the abolition of a higher appointment for consideration and report by the Public Service Commission. The Indian Commissioners would limit the references to the Public Service Commission to cases other than those necessitated by retrenchment or curtailment of work 81-82

Commutation of Pension.

- (lii) All officers should be allowed to commute up to one half of their pension, and the rates on which commutation value is based should be revised year by year, if necessary, on the basis of the rate of interest payable on loans raised by Government in that year 84

Legal Covenant.

- (liii) Mutually binding legal covenants, enforceable in a Civil Court, should be entered into between all future recruits and the authority appointing them. To secure the position of existing members of the Services a similar contract should be entered into, and so framed as to cover the remaining liabilities of their service. The contract should include clauses securing pay, leave rules, passages, remittance privileges, pension rules, etc., and the right to compensation in the event of dismissal without due notice or any breach of conditions of contract ; as well as the right to retire on proportionate pension in certain circumstances 85

Votability of Government Contributions to Provident Funds.

- (liv) The Governor-General should consider whether he might not construe such contributions as " pension " within the meaning of the Government of India Act in accordance with Section 67 A (4) thereof and all Governors should consider the same point in accordance with Section 72 D (3) 87

Position of Specialist Officers.

- (lv) A specialist officer on a contract for a definite period whose services have been dispensed with before the end of his term for reasons other than unsatisfactory performance of his duties, for example, on grounds of economy, has a claim to

special compensation. The amount of compensation should be fixed by the Government responsible, in consultation with the Public Service Commission PARAS.
88

Officers of All-India Services not appointed by the Secretary of State.

(lvi) Officers, including ex-Army officers in the Indian Police Service, not appointed by the Secretary of State but with his approval, should be reappointed by him from the date of their original appointment, so as to secure for them the same privileges as are enjoyed by other officers of the same Service 89

HOUSE RENT.

Houses supplied by Government.

(lvii) In assessing rent, interest should be calculated on the cost of construction, but nothing should be included in respect of the cost (if any) of the site. The capital cost of electrical and sanitary fittings should be included in the capital cost of the building.

On the capital cost so calculated the rent of the house should be assessed at not more than 6 per cent. The rent so calculated should be the annual rent payable by the tenant provided that he should not have to pay more than 10 per cent. of his monthly emoluments for the period of his occupation of the house. The cost of any restoration or special repairs should not be added to the capital cost of the building but any alterations which add to the accommodation and are made at the tenant's request, should be added to the capital cost and the rent raised in proportion

90-92

Private Houses.

(lviii) Where it is necessary to give relief to an officer on account of excessive rent charged by private landlords, the relief should be included in a compensatory local allowance and be calculated to cover, on an average at least, the excess over 10 per cent. of his emoluments which such officer has to pay for accommodation reasonably sufficient for his status and proportionate to his pay

92

MEDICAL ATTENDANCE.

(lix) The principle that attendance by medical officers of their own race should be available for members of the Services and their families should be accepted. It is recommended that :—

(a) Districts of a Province should be grouped and a British medical officer posted to one station in each group within easy reach of each district

93a

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|----------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| (b) | In stations where there is no British medical officer, travelling allowance for the officer and his family should be granted to the nearest station where there is such an officer. Alternatively, if more convenient, the travelling expenses of the medical officer should be paid by Government to enable him to visit the patient | PARAS.
93b |
| (c) | In serious cases it should be open to the doctor first consulted to give a certificate authorising the patient to travel to the nearest station where adequate treatment can be given and the certificate should qualify the patient for travelling allowance | 93c |
| (d) | The services of military medical officers where no other medical officers are available should be at the disposal of civilian officers and their families upon payment of normal fees .. | 93d |
| (e) | Officers if treated in hospital should not be liable for medical, surgical or nursing charges. Normal fees should be chargeable for their wives and families | 93e |
| | Free medical attendance for the wives and families of officers should not be provided | 94 |
| LEAVE RULES. | | |
| (lx) | The existing leave rules are sufficiently liberal and require no alteration | 95 |
| BURMA. | | |
| (lxi) | All recommendations in this Report (including those relating to Indianisation and provincialisation) apply to Burma. The Secretary of State, in consultation with the Government of India and the Local Government, should make any necessary adjustment in regard to the distribution of future recruits to the All-India Services as between Burma and other Provinces | 96-98 |
| DATE AT WHICH THIS REPORT SHOULD COME INTO EFFECT. | | |
| (lxii) | The recommendations in this Report should take effect from the commencement of the financial year 1924-25. | 99 |
| RECRUITMENT. | | |
| (lxiii) | (a) In the interests of recruitment it is important that every officer should have a reasonable measure of security. Uncertainty arising from the possibility of the abolition of posts is dealt with in (li) above | 102 |

	PARAS.
(b) As regards the risk that the officer may find the conditions of his service uncongenial, the recommendation in (xliii) provides a regular means of withdrawal without great financial injury	103
(c) Efforts should be made to stimulate recruitment by well-considered propaganda. With this in view the India Office should establish some permanent liaison with the British Universities.. ..	103
(d) A full and candid explanation of the present position in India, and of the conditions of service under the reformed system, with precise details as to pay, pensions and other privileges, and the measures of protection and security provided, should be made available for prospective recruits.. ..	103
(e) The age limit for candidates for the Indian Civil Service examination in England should remain as it is fixed for the present year, that is, a candidate must have attained the age of 21 and not have attained the age of 24 on the 1st day of August ..	104a
(f) The present probationary period of one year should also be retained	104b
(g) The existing system of open competitive examination for the selection of candidates for the Indian Civil Service should be continued	104c
(h) Officers should be recruited for the All-India Services, as at present, on the basis of a permanent career and not on short-term contracts	105

INTERDEPENDENCE OF MAIN PROPOSALS.

(lxiv) The main proposals in the Report are vitally interdependent and, in view of the urgency of the case, it is recommended that they should be considered as a whole and acted upon with as little delay as possible	108
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110. In conclusion we desire to place on record our sense of obligation to the staff of the Commission, which, from top to bottom, has displayed an ability and devotion to duty which call for the highest praise. Owing to the abnormal pressure under which our enquiry has been conducted, the strain on our Secretariat has been unusually severe, and their work, performed often under conditions of discomfort and inconvenience, has been altogether admirable.

The chief responsibility has of course fallen upon our Joint Secretaries, Mr. S. F. Stewart and Mr. A. W. Street. Mr. Stewart, with his long experience of the India Office, his wide knowledge of the problems involved in our terms of reference, and his unflinching courtesy, has proved himself an invaluable counsellor and aid. Mr. Street, who has been primarily responsible for the

organisation and control of the office has demonstrated his exceptional abilities as an organiser and his tireless capacity for work. He has further had charge of the arrangements for our tour and by his ever-ready helpfulness has placed every Member of the Commission in his debt.

We would also express our obligations to the two officers of the Indian Civil Service whose services were placed at our disposal after our arrival in India. Mr. H. G. Haig was appointed by the Government of India as its liaison officer with the Commission, and, in that difficult and delicate position, has been not merely a tactful link but an indispensable source of information on all points relating to the Departments and the Services. Mr. C. W. A. Turner was lent by the Government of Bombay, in the first instance as Personal Assistant to our Chairman, and, with his intimate knowledge of India and of Service conditions generally, became an invaluable member of our Secretariat. Mr. P. R. Rau was attached by the Government of India to the Commission, as an expert adviser on statistics, and has amply justified his appointment.

To all these officers, as also to the subordinate and reporting staff working under them, we wish to express our sincere and special thanks.

All of which we submit for Your Majesty's gracious consideration.

(Signed) LEE OF FAREHAM.
 BHUPENDRANATH BASU.*
 R. COUPLAND.
 R. H. CRADDOCK.
 M. HABIBULLAH.
 HARI KISHAN KAUL.
 CYRIL JACKSON.
 D. PETRIE.
 N. M. SAMARTH.

S. F. STEWART }
 A. W. STREET } Joint Secretaries.

Dated the 27th day of March, 1924

* Signature subject to the remarks contained in the following Minute. •

I have had, unfortunately, to stay away from the Commission at its final stage owing to sudden and severe illness; but my Indian colleagues and I had thoroughly discussed between ourselves the more important features of our enquiry before I fell ill, and during my enforced absence, through their courtesy, we were exchanging our ideas by means of correspondence on most of the points dealt with in the report. There is one matter in which for want of time I was unable to take part, namely, the enhanced pension of members of the Civil Service retiring as members of the Executive Councils and Governors of Provinces. There are several things to consider in this connection. There are, firstly, the existence of a feeling of camaraderie and equality in the ranks of the Civil Service, who feel that, barring the exigencies of the service, they are all on a footing of equality, a feeling which I should not like to disturb; and, secondly, the recent decision of the Government to refund the whole of their contributions has meant an addition of £250 to the pensions of the members of the service, and enables those who rise to high office to make a substantial addition to the fund at their credit on their retirement. It must also be borne in mind that Viceroy and Governors coming out from England retire without any pensions at the end of their term. For these reasons I am opposed to any enhancement of the pensions in the case of members of Executive Councils or Governors.

(Signed) BHUPENDRANATH BASU.

APPENDIX I.

ROYAL COMMISSION ON THE SUPERIOR CIVIL SERVICES
IN INDIA.

I.

Questionnaire on the Organisation of the Services.

1. In the light of the experience now gained of the operation of the system of government established by the Government of India Act, and in view of the avowed policy of Parliament as contained in the preamble of that Act, do you consider that any readjustment of the position of any or all of the All-India Services is required, and, in particular, would it be possible to transfer immediately or gradually any of their present duties and functions to Services constituted on a provincial basis? If, in your opinion, any readjustment is necessary, what should be the place and functions of these Services, and especially of the Indian Civil Service, in the Government of India?

2*. The tables annexed set out the principal classes of superior appointments at present held by members of the All-India Services. To what extent, in each of these classes, do you consider that European personnel must at present be retained for the maintenance of a standard of administration in accordance with the responsibilities of the Crown for the Government of India, and do you consider that any progressive reduction of this European element will be practicable within, say, the next 20 years?

3. Do you consider that the European element in the Services should be appointed and controlled by the Secretary of State in Council as members of Services organised on an All-India basis with the safeguards and conditions at present attaching to that organisation, or should it be appointed and controlled by the Government of India, or, where the duties concerned are under a Local Government, by the Local Government?

4. Having regard to the declared policy of Parliament in respect of increasing the association of Indians in every branch of the administration, and to the provision in Section 84 A of the Government of India Act for the appointment of a Statutory Commission in 1929 to report on the extent to which it is desirable "to extend, modify or restrict the degree of responsible government then existing" in India; and having regard also to the importance of offering to recruits a career of adequate security and opportunity; on what conditions do you consider that the European element in the Services should be recruited? In particular, do you consider that engagements on short term contracts would be suitable as a substitute for permanent appointments; and, if so, to what extent and in what branches of the Services?

5. Do you consider that the Secretary of State in Council should continue to appoint and control the Indians required for duties and functions of the kind at present performed by the All-India Services; or should they be appointed by the Government of India or by Local Governments? If you hold the former view, do you consider that any alterations are necessary in the methods adopted for the recruitment of Indians for the All-India Services?

6. Do you consider that the existing rates of pay for the All-India Services are suitable (a) for Europeans, (b) for Indians? If not, what readjustments do you suggest?

7. If Local Governments should appoint the personnel required for the duties and functions referred to in 5, would it be preferable to organise them as separate superior Provincial Services or to amalgamate them with the existing Provincial Services? In the latter alternative, what scales of pay would, in your opinion, be necessary to obtain recruits of the required standard?

* The scales on which Indians are being recruited for the various Indian Services under existing rules are shown in Annexure III to the questionnaire.

ANNEXURE I. TO QUESTIONNAIRE I.

TERMS OF REFERENCE OF ROYAL COMMISSION ON THE SUPERIOR CIVIL SERVICES IN INDIA.

Whereas, having regard to the necessity for maintaining a standard of administration in conformity with the responsibilities of the Crown for the Government of India, and to the declared policy of Parliament in respect of the increasing association of Indians in every branch of the administration, and in view of the experience now gained of the operation of the system of Government established by the Government of India Act in respect of the superior Civil Services in India, We have deemed it expedient that a Commission should forthwith issue to enquire into :—

- (1) The organisation and general conditions of service, financial and otherwise, of those Services ;
- (2) The possibility of transferring immediately or gradually any of their present duties and functions to services constituted on a provincial basis ;
- (3) The recruitment of Europeans and Indians respectively for which provision should be made under the Constitution established by the said Act, and the best methods of ensuring and maintaining such recruitment ; and to make recommendations.

ANNEXURE II. TO QUESTIONNAIRE I.

TABLE OF PRINCIPAL CLASSES OF SUPERIOR APPOINTMENTS UNDER THE GOVERNMENT OF INDIA HELD BY MEMBERS OF THE ALL-INDIA SERVICES.

Indian Civil Service—

Appointments under the Foreign and Political Department.
 Commissioner, Northern India
 Salt Revenue Department.
 Census Commissioner.
 Director General of Commercial Intelligence.
 Collector of Customs.
 Accountant General and Chief Auditor.
 Deputy Controller of Currency.
 Controller of Currency.
 Auditor General.
 Miscellaneous posts such as Opium Agent, etc.
 Postmaster-General.
 Deputy Director General of the Post Office.
 Director General of Posts and Telegraphs.
 Deputy Secretary and Secretary to Government of India.
 Member of Central Board of Revenue.
 Puisne Judge, Calcutta High Court.
 Member of Governor General's Executive Council.
 Miscellaneous posts such as Chief Commissioner, Delhi, Andaman and Nicobar Islands, etc.

Indian Police Service—

Assistant Director, Deputy Director and Director, Intelligence Bureau.

Indian Forest Service—

Scientific posts at the Forest Research Institute and College such as Forest Economist, etc.
 President, Research Institute.
 Inspector General of Forests.

Indian Educational Service—

Educational Commissioner.
 Appointments of masters on the Chiefs' Colleges cadre under the Political Department.

Indian Agricultural Service—

Agricultural Chemists, Imperial Agriculturists, etc.
 Director of the Agricultural Research Institute and College, Pusa.
 Agricultural Adviser to the Government of India.

Indian Service of Engineers—

Executive Engineer.
 Superintending Engineer.
 Chief Engineer.
 Consulting Engineer.

ANNEXURE II—*contd.*

<i>Indian Service of Engineers—contd.</i>	<i>Indian Medical Service—contd:</i>
Railways—	Director, Central Research Institute, Kasauli, etc.
Executive Engineer.	Public Health Commissioner.
Superintending Engineer.	Assistant Director, Deputy Director, Director General, Indian Medical Service.
Chief Engineer and Deputy Chief Engineer.	
Members, Railway Board.	
<i>Indian Medical Service—</i>	<i>Indian Veterinary Service—</i>
Appointments of Agency and Residency Surgeons under the Political Department.	Scientific posts at the Imperial Bacteriological Laboratory, Mukhtesar, such as Director, Bacteriologists, etc.
Scientific posts such as Director of Medical Research.	
TABLE OF PRINCIPAL CLASSES OF SUPERIOR APPOINTMENTS UNDER THE PROVINCIAL GOVERNMENTS HELD BY MEMBERS OF THE ALL-INDIA SERVICES.	
<i>Indian Civil Service—</i>	<i>Indian Agricultural Service—contd.</i>
Sub-Collector, 1st grade, Madras.	Principal and Professor of Agricultural College.
Magistrate Collector, Deputy Commissioner, or Settlement Officer.	Deputy Director of Agriculture.
District and Sessions Judge or Divisional Judge.	Director of Agriculture.
Deputy Secretary and Secretary to local Governments and Boards of Revenue.	<i>Indian Service of Engineers—</i>
Commissioner.	Irrigation—
Member of Boards of Revenue and Financial Commissioner.	Executive Engineer.
Civilian Judge of High Courts and Judicial Commissioner.	Superintending Engineer.
Member of Governor's Executive Councils.	Chief Engineer.
<i>Indian Police Service—</i>	Buildings and Roads—
Superintendent.	Executive Engineer.
Deputy Inspector General.	Superintending Engineer.
Deputy Commissioner and Inspector General.	Chief Engineer.
Commissioner of Police (e.g., Bombay).	<i>Indian Veterinary Service—</i>
<i>Indian Educational Service—</i>	Principal and Professor of Veterinary College.
Inspector of Schools.	Chief Superintendent.
Principal and Professor of College.	Superintendent and Veterinary Advisers to Government.
Deputy Director and Director of Public Instruction.	<i>Indian Medical Service—</i>
<i>Indian Forest Service—</i>	Civil Surgeon.
Deputy Conservator.	Chemical Examiner.
Conservator.	Director of Provincial Bacteriological Laboratory.
Chief Conservator.	Director of Pasteur Institute, etc.
<i>Indian Forest Engineering Service—</i>	Health and Sanitary Officer.
Forest Engineers.	Superintendent, Surgeon and Physician of Hospital.
<i>Indian Agricultural Service—</i>	Principal and Professor of College.
Scientific posts such as Economic, Botanist, etc.	Assistant Director of Public Health.
	Director of Public Health.
	Superintendent of Jails, Asylums, etc.
	Inspector General of Prisons.
	Inspector General of Civil Hospitals.
	Surgeon General.

ANNEXURE III. TO QUESTIONNAIRE I.

STATEMENT SHOWING THE SCALES ON WHICH INDIANS ARE BEING AND WILL BE RECRUITED FOR THE ALL-INDIA SERVICES UNDER PRESENT RULES.

Indian Civil Service	..	37½ per cent. rising by 1½ per cent. annually up to 48 per cent.
Indian Police Service	..	33 per cent. in provinces other than North-West Frontier Province, and Burma. For North-West Frontier Province proportion is restricted to 10 per cent. and for Burma to 22 per cent. of which at least 15 should be Burmans.
Indian Forest Service	..	The percentage of direct recruitment of Indians has been fixed at 40 for India and 25 for Burma for a period of five years from 1921. This includes Indians recruited both in England and India. In addition recruitment by promotion from the Provincial to the Imperial Service has been fixed at 12.5 per cent. of the posts in the Imperial Service.
Indian Agricultural Service		Composition of the Service to be worked up to 50 per cent. Indian, by appointment of Indians, as qualified candidates become available. No definite scale of annual recruitment has been laid down.
Indian Veterinary Service	..	Composition of the Service to be worked up to 50 per cent. Indian by appointment of Indians, subject to their attaining the requisite standard of efficiency. No definite scale of annual recruitment has been laid down.
Indian Educational Service: Men's Branch.		The general rule is that in regulating annual direct recruitment 50 per cent. should be Indians, until 50 per cent. of the composition of the Service is Indian. Indians transferred in posts transferred from the Provincial to the Imperial Service are not included in this 50 per cent. No definite percentage has been laid down for Burma.
Women's Branch	..	No definite percentage has been fixed.
Indian Service of Engineers		50 per cent. recruited in England, and 50 per cent. in India. Of the 50 per cent. recruited in England 10 per cent. must be Indians. For Burma the percentage recruited in England is 67 instead of 50.
Indian Medical Service	..	The recruitment ratio fixed in 1915 was 2 Europeans to 1 Indian. Proposals to increase the ratio of Indians are at present under discussion.

ANNEXURE IV. TO QUESTIONNAIRE I.

STATUTORY PROVISIONS AND RULES DEFINING AND REGULATING THE POSITION OF THE INDIAN SERVICES, AND IN PARTICULAR OF THE ALL-INDIA SERVICES.

EXTRACTS FROM GOVERNMENT OF INDIA ACT.

45A.—(2) Without prejudice to the generality of the foregoing powers (in regard to the classification of central and provincial subjects), rules made for the above-mentioned purposes may :—

- (iv) provide for regulating the exercise of the authority vested in the Local Government of a province over members of the public services therein.

(For rules made under this section, see page 84.)

67A.—(3) The proposals of the Governor-General in Council for the appropriation of revenue or moneys relating to the following heads of expenditure shall not be submitted to the vote of the Legislative Assembly, nor shall they be open to discussion by either chamber at the time when the annual statement is under consideration, unless the Governor-General otherwise directs :—

- (iii) Salaries and pensions of persons appointed by or with the approval of His Majesty or by the Secretary of State in Council.

72D.—(3) Nothing in the foregoing subsection* shall require proposals to be submitted to the (Governor's Legislative) Council relating to the following heads of expenditure :—

- (iv) Salaries and pensions of persons appointed by or with the approval of His Majesty or by the Secretary of State in Council.

96B.—(1) Subject to the provisions of this Act and of rules made thereunder, every person in the civil service of the Crown in India holds office during His Majesty's pleasure, and may be employed in any manner required by a proper authority within the scope of his duty, but no person in that service may be dismissed by any authority subordinate to that by which he was appointed, and the Secretary of State in Council may (except so far as he may provide by rules to the contrary) reinstate any person in that service who has been dismissed.

If any such person appointed by the Secretary of State in Council thinks himself wronged by an order by an official superior in a governor's province, and on due application made to that superior does not receive the redress to which he may consider himself entitled, he may, without prejudice to any other right of redress, complain to the governor of the province in order to obtain justice and the governor is hereby directed to examine such complaint and require such action to be taken thereon as may appear to him to be just and equitable.

(2) The Secretary of State in Council may make rules† for regulating the classification of the civil services in India, the methods of their recruitment their conditions of service, pay and allowances, and discipline and conduct. Such rules may, to such extent and in respect of such matters as may be prescribed, delegate the power of making rules to the Governor-General in Council or to Local Governments, or authorise the Indian Legislature or Local Legislatures to make laws regulating the public services.

* The foregoing sub-section requires that "The estimated annual expenditure and revenue of the province shall be laid . . . before the (Governor's Legislative) Council in each year, and the proposals of the Local Government for the appropriation of provincial revenues and other money's in any year shall be submitted to the vote of the Council in the form of demands for grants."

† For rules made under this sub-section, see page 85.

Provided that every person appointed before the commencement of the Government of India Act, 1919, by the Secretary of State in Council to the civil service of the Crown in India shall retain all his existing or accruing rights, or shall receive such compensation for the loss of any of them as the Secretary of State in Council may consider just and equitable.

(3) The right to pensions and the scale and conditions of pensions of all persons in the civil service of the Crown in India appointed by the Secretary of State in Council shall be regulated in accordance with the rules in force at the time of the passing of the Government of India Act, 1919. Any such rules may be varied or added to by the Secretary of State in Council and shall have effect as so varied or added to, but any such variation or addition shall not adversely affect the pension of any member of the service appointed before the date thereof.

Nothing in this section or in any rule thereunder shall prejudice the rights to which any person may, or may have, become entitled under the provisions in relation to pensions contained in the East India Annuity Funds Act, 1874.

(4) For the removal of doubts, it is hereby declared that all rules or other provisions in operation at the time of the passing of the Government of India Act, 1919, whether made by the Secretary of State in Council or by any other authority, relating to the civil service of the Crown in India, were duly made in accordance with the powers in that behalf, and are confirmed, but any such rules or provisions may be revoked, varied, or added to by rules or laws made under this section.

96c.—(1) There shall be established in India a public service commission, consisting of not more than five members, of whom one shall be chairman, appointed by the Secretary of State in Council. Each member shall hold office for five years, and may be reappointed. No member shall be removed before the expiry of his term of office, except by order of the Secretary of State in Council. The qualifications for appointment and the pay and pension (if any) attaching to the office of chairman and member shall be prescribed by rules made by the Secretary of State in Council.

(2) The Public Service Commission shall discharge, in regard to recruitment and control of the public services in India, such functions as may be assigned thereto by rules made by the Secretary of State in Council.

96e.—Rules made under this Part* of this Act shall not be made except with the concurrence of the majority of votes at a meeting of the Council of India.

97.—(1) The Secretary of State in Council may, with the advice and assistance of the Civil Service Commissioners, make rules for the examination, under the superintendence of those Commissioners, of British subjects, and of persons in respect of whom a declaration has been made under Section 96A† of this Act, who are desirous of becoming candidates for appointment to the Indian Civil Service.

(2) The rules shall prescribe the age and qualifications of the candidates, and the subjects of examination.

(2A) The admission to the Indian Civil Service of a British subject who or whose father or mother was not born within His Majesty's dominions shall be subject to such restrictions as the Secretary of State in Council,

* Part VIIA relating to the Civil Services in India.

†Section 96A provides that the Governor-General in Council, with the approval of the Secretary of State in Council, may, by notification, declare that any named ruler or subject of any State in India shall be eligible for appointment to any civil or military office under the Crown to which a native of British India may be appointed, or any named subject of any State, or any named member of any independent race or tribe, in territory adjacent to India, shall be eligible for appointment to any such military office.

with the advice and assistance of the Civil Service Commissioners, may think fit to prescribe, and all such restrictions shall be included in the rules.

(3) All rules made in pursuance of this section shall be laid before Parliament within fourteen days after the making thereof, or, if Parliament is not then sitting, then within fourteen days after the next meeting of Parliament.

(4) The candidates certified to be entitled under the rules shall be recommended for appointment according to the order of their proficiency as shown by their examination.

(5) Such persons only as are so certified may be appointed or admitted to the Indian Civil Service by the Secretary of State in Council.

(6) Notwithstanding anything in this section, the Secretary of State may make appointments to the Indian Civil Service of persons domiciled in India, in accordance with such rules as may be prescribed by the Secretary of State in Council with the concurrence of the majority of votes at a meeting of the Council of India.

Any rules made under this subsection shall not have force until they have been laid for thirty days before both Houses of Parliament.

98. Subject to the provisions of this Act, all vacancies happening in any of the offices specified or referred to in the Third Schedule to this Act,* and all such offices which may be created hereafter, shall be filled from amongst the members of the Indian Civil Service.

99.—(1) The authorities in India, by whom appointments are made to offices in the Indian Civil Service, may appoint to any such office any person of proved merit and ability domiciled in British India and born of parents habitually resident in India and not established there for temporary purposes only, although the person so appointed has not been admitted to that service in accordance with the foregoing provisions of this Act.

(2) Every such appointment shall be made subject to such rules as may be prescribed by the Governor-General in Council and sanctioned by the Secretary of State in Council with the concurrence of a majority of votes at a meeting of the Council of India.

(3) The Governor-General in Council may, by resolution, define and limit the qualification of persons who may be appointed under this section,

* Third Schedule to the Government of India Act, Section 98 :—

OFFICES RESERVED TO THE INDIAN CIVIL SERVICE.

A.—Offices under the Governor-General in Council.

1. The offices of secretary, joint secretary, and deputy secretary in every department except the Army, Marine, Education, Foreign, Political and Public Works Departments: Provided that, if the office of secretary or deputy secretary in the Legislative Department is filled from among the members of the Indian Civil Service, then the office of deputy secretary or secretary in that department, as the case may be, need not be so filled.

2. Three offices of Accountants General.

B.—Offices in the Provinces which were known in the year 1861 as "Regulation Provinces."

The following offices, namely :—

- | | |
|---------------------------------------------------------------------------------|----------------------------------------------------------------|
| 1. Member of the Board of Revenue. | 7. Secretary to the Board of Revenue. |
| 2. Financial Commissioner. | 8. District session judge. |
| 3. Commissioner of Revenue. | 9. Additional district or sessions judge. |
| 4. Commissioner of Customs. | 10. District magistrate. |
| 5. Opium Agent. | 11. Collector of Revenue of Chief Revenue Officer of district. |
| 6. Secretary in every department except the Public Works or Marine Departments. | |

but every resolution made for that purpose shall be subject to the sanction of the Secretary of State in Council, and shall not have force until it has been laid for thirty days before both Houses of Parliament.

100.—(1) Where it appears to the authority in India by whom an appointment is to be made to any office reserved to members of the Indian Civil Service, that a person not being a member of that service ought, under the special circumstances of the case, to be appointed thereto, the authority may appoint thereto any person who has resided for at least seven years in India and who has, before his appointment, fulfilled all the tests (if any) which would be imposed in the like case on a member of that service.

(2) Every such appointment shall be provisional only, and shall forthwith be reported to the Secretary of State, with the special reasons for making it; and, unless the Secretary of State in Council approves the appointment, with the concurrence of a majority of votes at a meeting of the Council of India, and within twelve months from the date of the appointment intimates such approval to the authority by whom the appointment was made, the appointment shall be cancelled.

101.—(3) A judge of a high court must be—

(b) a member of the Indian Civil Service of not less than ten years' standing, and having for at least three years served as, or exercised the powers of, a district judge.

(4) Provided that not less than one-third of the judges of a high court, including the chief justice but excluding additional judges, must be such barristers or advocates as aforesaid, and that not less than one-third must be members of the Indian Civil Service.

EXTRACT FROM THE (DEVOLUTION) RULES MADE UNDER SECTION 45A (2) (see page 81).

10. The authority vested in the Local Government over officers of the public services employed in a Governor's Province shall be exercised in the case of officers serving in a department dealing with reserved subjects by the Governor in Council, and in the case of officers serving in a department dealing with transferred subjects by the Governor acting with the minister in charge of the department: provided that—

(a) no order affecting emoluments or pensions, no order of formal censure, and no order on a memorial shall be passed to the disadvantage of an officer of an All-India or Provincial Service without the personal concurrence of the Governor; and

(b) no order for the posting of an officer of an All-India Service shall be made without the personal concurrence of the Governor.

11. If an officer performs duties both in a department dealing with reserved subjects and in a department dealing with transferred subjects, the Governor shall decide in which department he shall be deemed to be serving.

12. A Local Government shall employ such number of Indian Medical Service officers in such appointments and on such terms and conditions as may be prescribed by the Secretary of State in Council.

RULES UNDER SECTION 96B (2) OF THE GOVERNMENT OF INDIA ACT (see page 81).

In exercise of the powers conferred by section 96 B (2) of the Government of India Act, the Secretary of State in Council, with the concurrence of the majority of votes at a meeting of the Council held this 22nd day of December, 1920, hereby makes the following rules under the said section, which shall apply only to Governor's Provinces, and shall have effect from the several dates appointed for the coming into operation of the said section in those provinces.

Classification of Officers under Administrative Control of Local Governments.

I. Officers under the administrative control of Local Governments, other than officers employed on the administration of central subjects and appointed by the Secretary of State or the Government of India, shall be classified in the following divisions, namely :—

- (1) the All-India Services,
- (2) the Provincial Services,
- (3) the Subordinate Services,
- (4) officers holding special posts.

Definition of All-India Services.

II. The All-India services shall consist of—

(a) all officers serving under Local Governments who are members of any of the following services—

- (1) the Indian Civil Service,
- (2) the Indian Police Service,
- (3) the Indian Forest Service,
- (4) the Indian Educational Service,
- (5) the Indian Agricultural Service,
- (6) the Indian Service of Engineers,
- (7) the Imperial branch of the Civil Veterinary Department,
- (8) officers of the Indian Medical Service in civil employ,

and any other service declared by the Secretary of State in Council to be an all-India Service ; *

(b) military officers and other officers holding posts borne on the provincial cadres of the above services.

Definition of Provincial Services.

III.—(1) The Provincial Services shall consist of the services shown in the schedule to these rules, and any other service declared by the Local Government to be a provincial service.

(2) The services shown in the schedule shall include all appointments at present included in these services, and any appointments which a Local Government may add thereto :

Provided that if any service not included in the schedule to these rules is declared to be a provincial service, or if any appointment of a kind or class not at present included in a provincial service is added thereto, such declaration or addition shall be without prejudice to the rights and prospects of members of provincial services affected who were appointed before these rules were made.

Definition of Subordinate Services.

IV. The Subordinate Services shall consist of all minor administrative, executive, and ministerial posts to which appointments are made by the Local Government or by an authority subordinate to the Local Government.

Special Posts.

V. Special posts shall include all posts of a special or technical character, not included in an All-India or Provincial Service, to which appointments are made by the Local Government or by any other authority on behalf of the Local Government and which are declared by the Local Government to be special posts.

* By Resolution in Council, dated 12th December, 1922, item (7) was altered to " the Indian Veterinary Service " and by Resolution, dated 5th September 1923 " the Indian Forest Engineering Service " was added.

Appointments to All-India Services.

VI. All first appointments to an All-India Service, other than appointments made by promotion to such service of officers belonging to some other service or of members of the bar appointed to posts ordinarily held by members of the Indian Civil Service, shall be made by the Secretary of State in Council.

VII. Save as provided in the rules or orders regulating the recruitment of the All-India services, no person may be appointed without the previous sanction of the Secretary of State in Council to any post borne on the provincial cadre of such service except a person who is either a member of such service or is already holding a post borne on the cadre of such service :

Provided that the Local Government may appoint a member of the Indian Civil Service to the post of Inspector-General of Police or to the post of Director of Agriculture.

Promotion of Officers of All-India Services.

VIII. The local Government has authority to promote officers of an All-India Service to any post borne on the provincial cadre of such service :

Provided that the prior approval of the Governor-General in Council is required to—

- (1) the appointment of officers with less than 25 or 18 years' service respectively to the posts of Chief and Superintending Engineers in the province of Assam, and
- (2) appointments except in the provinces of Madras and Bombay to the post of—
 - (a) Chief Conservator of Forests, and
 - (b) Conservators of Forests.

Transfer of Officers of All-India Services.

IX. The power to transfer officers of an All-India Service from any one post to any other post borne on the cadre of such service, or from any one part of the province to any other part, is vested in the local Government, but may be delegated by the Local Government, subject to such conditions as it may prescribe, to any authority subordinate to it, or in the case of officers holding judicial posts, to a High Court or a Chief Court or the Court of a Judicial Commissioner.

Authority of Local Government over Officers of All-India Services.

X. A Local Government may for good and sufficient reasons—

- (1) censure,
- (2) reduce to a lower post,
- (3) withhold promotion from, or
- (4) suspend from his office

any officer of an All-India Service :

Provided that no head of a department appointed with the approval of the Governor-General in Council shall be reduced to any lower post without the sanction of the Governor-General in Council.

Military Officers in Civil Employ.

XI. A military officer may not be reverted from his civil employment except under the orders of the Governor-General in Council.

Special Contracts.

XII. The sanction of the Secretary of State in Council is required to any terms in a special contract, by which any right, privilege or concession not admissible under these rules is secured to an officer.

Authority of Local Government over Officers of Provincial and Subordinate Services, and Officers holding Special Appointments.

XIII. Without prejudice to the provisions of any law for the time being in force, the Local Government may for good and sufficient reasons—

- (1) censure,
- (2) withhold promotion from,
- (3) reduce to a lower post,
- (4) suspend,
- (5) remove, or
- (6) dismiss.

any officer holding a post in a provincial or subordinate service or a special appointment.

Procedure in cases of Dismissal, Removal or Reduction.

XIV. Without prejudice to the provisions of the Public Servants Inquiries Act, 1850, in all cases in which the dismissal, removal or reduction of any officer is ordered, the order shall, except when it is based on facts or conclusions established at a judicial trial, or when the officer concerned has absconded with the accusation hanging over him, be preceded by a properly recorded departmental enquiry. At such an enquiry a definite charge in writing shall be framed in respect of each offence and explained to the accused, the evidence in support of it and any evidence which he may adduce in his defence shall be recorded in his presence and his defence shall be taken down in writing. Each of the charges framed shall be discussed and a finding shall be recorded on each charge.

Delegation.

XV. A Local Government may delegate to any subordinate authority, subject to such conditions, if any, as it may prescribe, any of the powers conferred by Rule XIII in regard to officers of the subordinate services :

Provided that every such officer on whom any punishment is inflicted shall be entitled to prefer at least one appeal against such order to such authority as the Local Government may prescribe.*

SCHEDULE OF PROVINCIAL SERVICES.

(RULE III.)

Madras.

- (1) Madras Civil Service.
- (2) Madras Educational Service.
- (3) Madras Civil Medical Service.
- (4) Madras Police Service.
- (5) Madras Agricultural Service.
- (6) Madras Agricultural Engineering Service.
- (7) Madras Engineering Service.
- (8) Extra Assistant Conservators of Forests.
- (9) District Registrars.
- (10) Gazetted officers of the Jail Department not belonging to the Indian Medical Service.
- (11) Deputy Sanitary Commissioners not belonging to the Indian Medical Service.
- (12) Gazetted officers of the Survey and Land Records Department not belonging to the Indian Civil Service.
- (13) Officers above the rank of Assistant Inspectors in the Salt and Excise Department not belonging to the Indian Civil Service.

- (14) Deputy Superintendents in the Veterinary Department and the Assistant Principal of the Veterinary College.
- (15) Chief Inspector and Inspectors of Factories.
- (16) Assistant Registrars of Co-operative Societies.
- (17) The Chief Boiler Inspector and Boiler Inspectors.

Bombay.

- (1) Bombay Civil Service.
- (2) Bombay Educational Service.
- (3) Bombay Civil Medical Service.
- (4) Bombay Police Service, and Superintendents of the Bombay City Police.
- (5) Bombay Agricultural Service, that is, officers of and above the rank of Assistant Professors of the Agricultural College and Divisional Superintendents not being members of an All-India Service.
- (6) Bombay Engineering Service.
- (7) Extra Assistant Conservators of Forests.
- (8) Sub-Registrars of the Bombay City.
- (9) Non-medical Superintendents of Jails.
- (10) Deputy Commissioners not belonging to the Indian Civil Service, Assistant Collectors and Officers of the rank of Senior grade Inspectors recruited by direct appointment of the Bombay Salt and Excise Department.
- (11) Officers of and above the rank of Assistant Professors of the Bombay Civil Veterinary College and Deputy Veterinary Superintendents not being members of an All-India Service.
- (12) Inspectors of Factories, steam boilers and smoke nuisances.
- (13) Officers of and above the rank of Assistant Registrars and Special Auditors of Co-operative Societies.
- (14) Deputy Sanitary Commissioners, Port Health Officers and Bacteriological Officers (including officers in charge of sanitary laboratories) not belonging to the Indian Medical Service.
- (15) Shipping and Deputy Shipping Masters.
- (16) Deputy Political Agents.
- (17) Commissioners and Collectors of Income Tax.
- (18) Bombay Customs Service.

Bengal.

- (1) Bengal Civil Service.
- (2) Bengal Educational Service.
- (3) Bengal Civil Medical Service.
- (4) Bengal Police Service.
- (5) Bengal Agricultural Service.
- (6) Bengal Engineering Service.
- (7) Bengal Forest Service.
- (8) District Registrars.
- (9) Bengal Excise Service, that is Inspectors, Prosecutors, Superintendents and Deputy Commissioners.
- (10) Bengal Veterinary Service.
- (11) Deputy Sanitary Commissioners not belonging to the Indian Medical Service.
- (12) Bengal Pilot Service.
- (13) Bengal Gardeners' Service.

United Provinces.

- (1) United Provinces Civil Service.
- (2) United Provinces Educational Service.
- (3) United Provinces Civil Medical Service.
- (4) United Provinces Police Service.
- (5) United Provinces Engineering Service.
- (6) United Provinces Agricultural Service.
- (7) Extra Deputy Conservators and Extra Assistant Conservators of Forests.
- (8) Inspectors of Registration Offices.
- (9) Assistant Excise Commissioners.
- (10) Deputy Superintendents of the United Provinces Civil Veterinary Department.
- (11) Deputy and Assistant Registrars of Co-operative Societies.
- (12) Sub-Deputy and Assistant Opium Agents.
- (13) Deputy Sanitary Commissioners not belonging to the Indian Medical Service.

Punjab.

- (1) Punjab Civil Service.
- (2) Punjab Educational Service.
- (3) Punjab Civil Medical Service.
- (4) Punjab Police Service.
- (5) Punjab Agricultural Service.
- (6) Punjab Service of Engineers.
- (7) Punjab Forest Service.
- (8) Punjab Veterinary Service.
- (9) Deputy Sanitary Commissioners not belonging to the Indian Medical Service.

Bihar and Orissa.

- (1) Bihar and Orissa Civil Service.
- (2) Bihar and Orissa Educational Service.
- (3) Bihar and Orissa Civil Medical Service.
- (4) Bihar and Orissa Police Service.
- (5) Assistant Directors of Agriculture.
- (6) Bihar and Orissa Engineering Service.
- (7) Bihar and Orissa Forest Service.
- (8) Deputy Superintendents of Jails.
- (9) Superintendents of Excise and Salt.
- (10) Deputy Sanitary Commissioners not belonging to the Indian Medical Service.

Central Provinces.

- (1) Central Provinces Civil Service.
- (2) Central Provinces Educational Service.
- (3) Central Provinces Civil Medical Service.
- (4) Central Provinces Police Service.
- (5) Central Provinces Agricultural Service.
- (6) Central Provinces Engineering Service.
- (7) Central Provinces Forest Service.
- (8) Deputy Directors of Land Records.
- (9) The upper cadre of District Excise Officers.
- (10) Deputy Superintendents of the Central Provinces Civil Veterinary Department.
- (11) Collectors of Income-tax.
- (12) Deputy Sanitary Commissioners not belonging to the Indian Medical Service.

Assam.

- (1) Assam Civil Service.
- (2) Assam Educational Service.
- (3) Assam Civil Medical Service.
- (4) Assam Police Service.
- (5) Assam Agricultural Service.
- (6) Assam Service of Engineers.
- (7) Extra Deputy Conservators and Extra Assistant Conservators of Forests.
- (8) Excise Superintendents.
- (9) Deputy Superintendents, Assam Veterinary Department.
- (10) Deputy Sanitary Commissioners not belonging to the Indian Medical Service.

EXTRACT FROM RULES RELATING TO EXPENDITURE BY THE GOVERNMENT OF INDIA ON SUBJECTS OTHER THAN PROVINCIAL. (GOVERNMENT OF INDIA, FINANCE DEPARTMENT, RESOLUTION No. 1448 E.A., DATED 29TH SEPTEMBER, 1922.)

The previous sanction of the Secretary of State in Council is necessary:—

- (1) To the creation of any new or the abolition of any existing, permanent post, or to the increase or reduction of the pay drawn by the incumbent of any permanent post, if the post in either case is one which would ordinarily be held by a member of one of the services named in the Schedule, or to the increase or reduction of the cadre of any of those services.

* * * * *

The Schedule.

- (1) Indian Civil Service.
- (2) Indian Police Service.
- (3) Indian Forest Service.
- (4) Indian Educational Service.
- (5) Indian Agricultural Service.
- (6) Indian Service of Engineers.
- (7) The Imperial Branch of the Civil Veterinary Department.
- (8) Indian Medical Service.
- (9) Imperial Customs Service.
- (10) Indian Audit and Accounts Service.
- (11) Superintendents and Class I of the Survey of India Department.
- (12) The Superior Staff of the Geological Survey of India Department.
- (13) The Superior Telegraph Branch of the Post and Telegraph Department.
- (14) The State Railway Engineering Service.
- (15) The Superior Staff of the Mint and Assay Departments.
- (16) The Archæological Department.
- (17) Any other service declared by the Secretary of State in Council to be included in this Schedule.

EXTRACT FROM RULES RELATING TO EXPENDITURE BY A GOVERNOR IN COUNCIL ON RESERVED PROVINCIAL SUBJECTS. (GOVERNMENT OF INDIA, FINANCE DEPARTMENT, RESOLUTION No. 1449 E.A., DATED 29TH SEPTEMBER, 1922.)

1. The previous sanction of the Secretary of State in Council is necessary:—

- (1) To the creation of any new, or the abolition of any existing, permanent post, or to the increase or reduction of the pay drawn by the incumbent of any permanent post, if the post in either case is one which would ordinarily be held by a member of an All-India Service, or to the increase or reduction of the cadre of an All-India Service.

* * * * *

EXTRACT FROM SCHEDULE III OF THE DEVOLUTION RULES RELATING TO EXPENDITURE BY A LOCAL GOVERNMENT ON TRANSFERRED SUBJECTS.

1. The previous sanction of the Secretary of State in Council is necessary :—

- (1) to the creation of any new, or the abolition of any existing, permanent post, or to the increase or reduction of the pay attached to any permanent post, if the post in either case is one which would ordinarily be held by a member of an All-India Service, or to the increase or reduction of the cadre of an All-India Service.

EXTRACT FROM INSTRUMENT OF INSTRUCTIONS TO GOVERNORS.

VII. But in addition to the general responsibilities with which you are, whether by statute or under this Instrument, charged, We do further hereby specially require and charge you :—

- (4) to safeguard all members of Our services employed in the said presidency in the legitimate exercise of their functions, and in the enjoyment of all recognised rights and privileges and to see that your Government order all things justly and reasonably in their regard, and that due obedience is paid to all just and reasonable orders and diligence shown in their execution.

II.

Questionnaire on Service Conditions in the All-India Services.

1. Taking into consideration the provisions of the Government of India Act, do you consider that the position of members of the Services is adequately safeguarded as regards (i) pay (ii) allowances (iii) prospects (iv) pensions. If not, and bearing in mind the existing constitutional position in India, have you any proposals to make ?
2. Have you any observations to offer on the scheme for retirement on proportionate pension announced in the Government of India, Home Department, Resolution dated 8th November, 1921, No. F-149-I. (Establishments) as subsequently amended ?
3. What are your views with regard to the present rates of pay ? Give any figures available to you, e.g., family budgets, distinguishing between expenditure in India and expenditure involving remittance to the United Kingdom. If a new scale of remuneration were fixed now, how would you provide for its adjustment to meet future variations in prices and exchange ?
4. What are your views with regard to the question of passage allowances for officers in the Services and their families ? If such allowances were granted, would you prefer that they should take the form of an increase of overseas pay to all officers or the grant of a certain number of passages during an officer's service to himself, his wife and family ?
5. Have you any criticisms to make regarding the allowances payable to the Services ?
6. Have you any observations to offer regarding the withdrawal of exchange compensation allowance ?
7. Do you consider that any grievance exists in respect of house-accommodation, the rent chargeable for official residences, or the house-rent allowances granted when no official residence is available ?
8. Have you any criticism to make regarding the leave rules ?
9. Do you consider that the pension rules and scales are satisfactory ? If not, give reasons in detail for any proposals you may have to make. Do you consider that subscription to Provident Funds by Government in lieu of pensions should be adopted for (1) officers now in the Services and (2) future recruits ? Have you any observations to make on the rules governing commutation of pensions, and in particular the existing one-third restriction on the proportion of pension which may be commuted ?
10. What is your opinion of the comparative merits of family pensions and provident funds as provision for the families of deceased officers ? Have you any observations to offer regarding the existing I.C.S. Family Pension Fund ?
11. Do you consider that suitable provision is made for medical attendance for officers and their families ? If not, have you any proposals to make ?

APPENDIX II.

NOTE BY LIEUTENANT-GENERAL SIR C. H. BURTCHAELL, K.C.B., C.M.G.,
FORMERLY DIRECTOR, MEDICAL SERVICES IN INDIA, ON THE
RECOMMENDATIONS OF THE VERNEY-LOVETT COMMITTEE.

The report of the Medical Services Committee, 1919, and the discussions and proposals that appear in the Army Department files on the same subject since 1879, point to the desirability of forming a single medical corps for the Army in India. If such a corps be formed, it must be organised to meet all requirements, separately, of (i) British troops, and (ii) Indian troops, during peace in India, and of both categories of troops during war, whether they be employed independently or in combination on, or beyond, the frontier of India or overseas.

2. In considering the points leading up to the recommendations for the formation of an Indian Medical Corps, the Committee did not bring out prominently the distinction that must be observed between British troops and Indian troops, especially in connection with the purpose for which the former are maintained in India and their possible dispositions during war. The Public Services Commission lays stress on the necessity of calculating separately on their merits :—

- (i) The needs of the Army (including, of course, the British Army).
- (ii) The needs of the Civil Administration.

Close adherence to that precept and a fuller consideration of the wider aspects, on their merits, of the needs of the Army would have enabled the Committee to avoid the rock on which all former proposals for a single medical service for the Army in India were wrecked, namely, the inexpediency, if not the impossibility, of depriving the British troops in India of the officers of the medical service of the British Army as a whole. The proposed Indian Medical Corps, by reason of its title and the composition of its officers, irrespective of efficient military training and organisation, would in no way overcome the inconveniences that are said to have been experienced during the Great War, when medical officers and medical units of the Indian Army were brought into contact with officers and units of the Royal Army Medical Corps in overseas theatres of war.

The Committee state that the Indian Medical Service officers found themselves at a disadvantage alongside officers of the Royal Army Medical Corps by whom they were constantly superseded; friction, overlapping and re-duplication of effort occurred; this resulted sometimes from the widely different antecedents of the officers, and the existence side by side of two cadres of medical officers with different rates of pay, leave rules and terms for pension. To obviate this undesirable state of affairs in future wars, the Committee arrived at the rather peculiar conclusion (paragraph 43), that after the formation of one Indian Medical Corps, composed of British and Indian officers, and further removed in antecedents and conditions of service from the Royal Army Medical Corps than the present Indian Medical Service, co-operation and interchange of duties would be facilitated, and the officers and men of the Indian Medical Corps and the Royal Army Medical Corps would find it possible, and indeed easy, to work together when they met outside the boundaries of India on field service.

If there were difficulties in the past what will be the situation in an overseas theatre of war in the future when the British troops or composite Indian divisions from India arrive at the scene of operations with their Indian Medical Corps medical officers and organisations, and start work in the same army corps or army alongside the Royal Army Medical Corps? In some years to come not one of the latter officers would have the slightest acquaintance with India or its medical corps. A not impossible contingency would be the despatch of organised fighting divisions from the United Kingdom to India. No officer of the Royal Army Medical Corps would possess any knowledge of India, its diseases or dangers to health. The

Assistant Director, Medical Services, of a British division might, indeed, by seniority, at once become a Deputy Director, Medical Services, of a formation including troops of the Indian Army with their complement of Indian Medical Corps, and he might possibly possess less total service than the senior officer of the Indian Medical Corps on the spot. Thus in military operations on a large scale, in or out of India, "unification" on the lines proposed by the Committee falls to the ground, and the way is open to again create, in war, the grievances arising from supersession and comparative rates of pay, which would probably reappear in a form even more acute than that they are said to have taken during the past five years.

4. So long as the reasons which necessitate the maintenance of the British Army in India hold good, and so long as British troops on the Indian establishments are liable to be called upon for service in other parts of the world, British officers of the medical corps of the British Army must be retained on the Indian establishment, and be available for transfer with troops to any theatre of war, where in the ordinary course they would be interchangeable with the medical officers of the Army as a whole. The despatch of British troops from India to South Africa in 1899, and to the United Kingdom and France in 1914, are cases in point. On both occasions a number of trained Royal Army Medical Corps officers accompanied the troops and their services were utilised on the duties for which they were most suited in the field army, irrespective of the troops they happened to accompany from India. Therefore the proposal for the absorption into an Indian Medical Corps of the officers of the Royal Army Medical Corps on the Indian establishment must now, as in the past, be condemned on purely military grounds.

Apart from the inexpediency from a military point of view of the lesser military medical service absorbing a portion of the greater, there are other reasons affecting the care, comfort and welfare of British troops in India against the introduction of an Indian Medical Corps, constituted as proposed by the Committee.

The proposed Indian Medical Corps is designed to contain British medical officers and Indian medical officers—Indians. The Committee was of opinion (paragraph 54) that it was not advisable to fix a percentage of Indians to be admitted to the proposed corps, but, although they thought it impossible at the present day to mix at once and entirely British and Indian doctors and to use them indiscriminately for the treatment of British and Indian troops, they believed that if there were a "unified" service it would be possible to extend gradually the medical care of British troops into the hands of Indian officers. Yet the Committee insist (paragraph 50) that in every military station and in every civil district headquarters there should be available a European medical officer and that arrangements should certainly be made for a European medical attendant to be secured for European officials, their wives and families, as well as for European planting, railway and other non-official communities.

The assertion that the British officer and soldier seem to object (paragraph 41) to treatment by Indian doctors, not because they are Indians, but because they have not, with few exceptions, attained a standard equal to that of British doctors, may, to a certain extent, be correct, but the Committee did not take into account the wider duties of a military medical officer in connection with healthy troops which are often more prominent than the medical treatment of a sick officer or man.

A previous proposal relating to the establishment of a single medical service was thrown out on this point alone. The War Office then stipulated that Indian members of the Indian Medical Service should not, under any conditions, be considered eligible for charge of white troops.

The present military assistant surgeons "will have become highly trained doctors," and the Committee consider (annexure VIII, paragraph (3)) they should be employed in lieu of commissioned medical officers, British or Indians. Military assistant surgeons, are, however,

Anglo-Indians, with a small number of Europeans amongst them. Only a few of the latter and still fewer of the former have, at the present day, any real influence whatever over British soldiers in hospital, and they would be quite unable, as medical officers in charge of effective troops in barracks or camps, to exercise the control necessary to maintain a high standard of sanitation and to prevent loss of strength from minor causes of physical inefficiency.

Therefore, on grounds of military necessity, efficiency, discipline and sentiment, officers of the medical corps of the British Army must always be available in the necessary numbers to provide all medical requirements of the British troops in India.

5. The above reasons which in the past caused schemes aiming at a single service to be rejected not only still hold good, but new factors that were not present when the subject came for discussion on previous occasions have now to be taken into consideration :—

(i) It has become strongly impressed on all competent observers that continuous service with the Army in India, especially in the medical service, such as would be the fate of an officer of the proposed Indian Medical Corps who did not secure civil employment—and there would be many such—is detrimental to efficiency and tends to produce stagnation. On the other hand, there is ample evidence that the transfer to India of officers who have served in the United Kingdom and abroad, elsewhere than India, stimulates initiative and makes for progress and improvement in all branches of work. It is, therefore, desirable to keep in force the system which prevails in the case of the Royal Army Medical Corps and to extend it so far as possible to the medical service of the Indian Army.

(ii) The state of the Indian Medical Service as regards the prospective supply of British candidates is extremely serious. The output of medical graduates from the medical schools in the United Kingdom at the present time is relatively small, and may diminish while demands for medical men are great. But were that not so, is there any likelihood, having regard to the circumstances which led up to the present state of the Service, that the change in name of the Indian Medical Service to the Indian Medical Corps with a probable reduction in the number of civil appointments would attract candidates to the career offered? The report of the Committee shows (paragraph 10) that the Indian Medical Service progressively declined in popularity during the years before the war; that its officers are in a state of acute discontent partly because they share in the unusual anxiety with which the future is now regarded by British officers in all Indian services; that the service has become depressed and has ceased to attract British candidates, while Indian candidates have increased and will go on increasing; that the output of Indian medical graduates will tend to hasten an already remarkable decline in the private practice open to officers of the superior Government service, and that an Indian career occupies a position in popular estimation in England decidedly inferior to the position it occupied in 1902.

The Committee say (paragraph 38) that they are hardly in a position to estimate the exact degree of inducement which the medical services in India should offer, but they conjecture that "some number" of the diminishing output of medical graduates in Great Britain will still be attracted to an Indian career provided that (1) the political aspect clears, (2) pecuniary and leave conditions are attractive, (3) candidates are not asked to pledge themselves irrevocably for 30 years to a service, the conditions of which are likely to be obscure.

- (iii) It is not thought possible (paragraph 51) to secure a sufficient supply of European candidates for the proposed Indian Medical Corps unless retirements on gratuities be permitted after fixed periods before pension is earned in order to guarantee British candidates against a possible prospect of being tied for life to India much against their will.
- (iv) It is impossible at present to form a medical corps for the Indian Army unless the officers of the Royal Army Medical Corps serving in India voluntarily transfer into it.

The Committee did not appear to have given much consideration to the fact that the attractions required to draw candidates into the service from the medical schools in the United Kingdom are the same as those required to induce any number of Royal Army Medical Corps officers to transfer.

- (v) The Royal Army Medical Corps, the report states, is now a flourishing service, while the Indian Medical Service has ceased to attract the competition it once commanded so easily.

This is well-known. Some 15,000 or 20,000 civilian medical gentlemen served in the Royal Army Medical Corps during the war. The name and work of the corps as successfully accomplished by a combination of the regular and temporary officers, is familiar not only throughout the profession in the United Kingdom, but in the allied countries.

6. The solution seems to be to take up the alternative scheme which the Committee rejected (paragraph 54) and to form in India a new corps and a new service—the one distinct from the other :—

- (1) The Royal Army Medical Corps (India). To provide for all medical requirements of the Army in India, both British and Indian troops, in peace and in war.
- (2) The Imperial Indian Medical Service. A separate Civil Medical Service quite independent of the Army, but drawing its officers from the army for temporary or permanent service to fill such appointments as may be reserved for British or Indian medical officers of the Army.

As regards (1), it would not be feasible to create in India a medical corps and amalgamate it with the element of the Royal Army Medical Corps that happened to be serving in India. It should, however, be possible to form the Royal Army Medical Corps (India) constituted as a corps of the Indian Army, and composed of Indian and British personnel. Such a designation would tend to promote harmony and co-operation with the Royal Army Medical Corps of the British Army, and it may reasonably be expected to prevent invidious comparisons and friction in operations overseas where British and Indian troops are employed in the same force.

All officers and other ranks, Royal Army Medical Corps, while serving, in India, would be attached to the Royal Army Medical Corps (India).

The Committee rejected the suggestion that a Royal Army Medical Corps might be introduced into India on the grounds that the Royal Army Medical Corps only admits candidates of unmixed European blood. Indians, however, might be given commissions in the Royal Army Medical Corps and be allotted for permanent service in India with Indian troops, and be eligible for transfer to the Civil Imperial Medical Service or they might be given special commissions in the Royal Army Medical Corps (India). The question of granting commissions in the Royal Army Medical Corps to Indians for service in India only is one which at the present day merits consideration. There is no very obvious objection against granting such commissions to suitable and specially selected Indians.

The Royal Army Medical Corps (India) might be formed, with some modifications of the various categories of personnel, as contemplated in the organisation suggested for the Indian Medical Corps in Annexure VIII of the Report.

The principles of admission of officers to the corps and courses of instruction would be as laid down in the Report.

The nursing section for British hospitals should, however, be composed of Royal Army Medical Corps other ranks. Anglo-Indians could not take the place of British non-commissioned officers and men of the Royal Army Medical Corps, who would be available, if necessary, for transfer out of India with British troops. Moreover, it is not desirable that the British soldier in India should be deprived of the trained hospital attendants which are provided for him in all other parts of the world.

The officers of the Indian Medical Service, whether in civil or military employment, would retain all their existing rights and privileges as regards promotion, pay and pension. Transfers of senior officers from civil to military would cease. Those awaiting retransfer or transfer to civil would have priority of claim as vacancies in civil under the Imperial Indian Medical Service became available. Officers so transferred would remain permanently in civil or revert to Army service according to their seniority or nature of appointment held—senior officers transferred and holding important civil appointments would remain permanently in civil—junior officers would revert to military after a period of years (to be decided) unless the civil administration desired their permanent transfer to civil employ and the officer did not desire to revert to military.

All these officers would be in a position to maintain that substantial merit and high standard of duty, which the Committee remark in paragraph 39 should characterise the Civil Medical Service.

Other officers not now due for retransfer to civil or who had not applied when the change of name is introduced would take their turn for civil appointment with all officers Royal Army Medical Corps (India) or Royal Army Medical Corps attached.

The Indian Medical Service officers remaining in military employment would become officers of the Royal Army Medical Corps or of the Royal Army Medical Corps (India) according to whether it be decided that all European military medical officers should belong to the Royal Army Medical Corps or that the officers of that corps should be attached to Royal Army Medical Corps (India) during their first period of service in India and later on, after a tour of service out of India, taken on the cadre of the Royal Army Medical Corps (India), if they elected for permanent service in India.

The conditions of admission for Europeans and Indians should be through one channel, i.e., examinations held for candidates for the Royal Army Medical Corps in London.

The principles laid down in paragraph 52 of the Report regarding special courses of instruction in the United Kingdom for Indians and the grant of scholarships should be brought into operation.

British officers would enter the Royal Army Medical Corps which would provide the number of British medical officers required in India, both for service with British and Indian troops. Indian candidates would be admitted to fill the number of vacancies existing in the cadre of the Royal Army Medical Corps (India) available for Indians.

Officers required to fill the number of vacancies set apart for them in the Imperial Indian Medical Service would be seconded for duty with that service on the lines suggested in paragraph 48 of the Report for periods of five years. They would be granted pay and special precedence in accordance with the appointment held. If at the end of ten years they did not desire to revert to military service, they would be permanently admitted to the civil cadre, and then take their place with civil officers similarly to officers of the Army holding Indian Civil Service posts in the regulation provinces

or employed in the Public Works as recommended by the Public Services Commission. Indians would be eligible equally with Europeans for transfer to the Imperial Indian Medical Service.

Officers permanently transferred to the Imperial Indian Medical Service and those holding teaching, research and certain residuary appointments would not be liable to recall to military duty in the event of war. The Army by arrangement with the civil Government should have no difficulty in obtaining the services of those officers who had attained positions of professional eminence for temporary employment as consultants during war.

7. A cadre of officers, Royal Army Medical Corps (India) and Royal Army Medical Corps attached, based on a ratio of 3.5 per thousand of strength of British and Indian troops, would probably suffice as a peace establishment. All medical officers doing duty with British troops would be British. Of those doing duty with Indian troops, 30 per cent. to 40 per cent. would be Indians, to be raised to 50 per cent., if, owing to improved methods of instruction in professional work, and military training, a sufficient number of suitable and reliable Indian officers became available.

8. The war reserve would be provided on the lines suggested in paragraphs 49 and 47 of the Report. It is not likely that there would be any danger of an inflated reserve monopolising the civil appointments as suggested in the Secretary of State's despatch of 11th October, 1918, to the Government of India (paragraph 3 (iv)). If the strength of British Royal Army Medical Corps officers is maintained on the ratio of four per thousand troops, the requirements of British troops engaged in ordinary operations on the frontier could be met. Indian officers of the Royal Army Medical Corps (India) would improve by training and experience, and it might be feasible on mobilisation to increase the proportion of those officers to British Royal Army Medical Corps serving with Indian troops.

9. The recommendations in paragraph 9 of Annexure VIII should be carried out. It is eminently desirable that officers, Indian and British, should go through the post-graduate course at the Royal Army Medical Corps College, London. Such an arrangement would undoubtedly assist officers in keeping abreast of the advance of scientific knowledge and enable those serving in India to keep in touch with progress in England. It is equally important that a Royal Army Medical Corps College (India) be established in India as recommended by Sir George Makins. Such an institution should be organised and conducted so far as possible on exactly similar lines to the Royal Army Medical Corps College in London. The commandants and professors at both colleges should keep in touch. Lecturers might be interchanged when circumstances allowed, and either institution would be likely to benefit by such a change. Courses of instruction and examinations for promotion could be instituted at the College in India for officers unable to attend the course in London.

10. The necessity for the formation of an Indian State Medical Service, separate for the military service, appears to have impressed many persons who have had occasion to review the organisation of the Indian Medical Service throughout a long period of years.

The want of such a service seems to have been one of the main factors which gave rise during the Great War to the inconvenience, friction and overlapping referred to in the Committee's Report. When those terms are used, it is not in every case apparent whether they refer to (i) military duties being performed by officers of two separate services, (ii) personal disabilities and grievances of individual officers, or (iii) circumstances resulting from the constitution of the Indian Medical Service being partly military and partly civil. Apparently there has been little or no actual service inconvenience from officers of the two military medical services doing duty alongside each other. References to the subject in previous discussions on

reorganisation, and in the recent Committee's Report show that inconveniences were, in a great measure, due to the fact that the Indian Medical Service, although classified as being primarily military, is employed on civil duties to the extent of over 62 per cent. of the whole.

Discussions many years back, opinions by distinguished administrative medical officers in the past, and more recently of the report of the Public Services Commission point to the conclusion that the advantages that would accrue from a civil medical service independent of the medical service of the Army would outweigh the disadvantages, and that such a change is necessary to promote efficiency in both the civil medical administration and the military medical service. Sir George Makins draws attention to the extent of the medical work of the country (Annexure III).

Apart from the direction and co-ordination of medical education, research, public health registration, the service of medical women and the nursing services of the civil community, it would seem that there is urgent need for a more extensive organisation of medical work under an independent State medical service, and that there are many openings for the employment of a considerable British element, outside the war reserve officers, in all branches of the civil medical administration as emphasised by Sir Temulji Nariman, Kt. (paragraph 49). The Report of the Committee states that the existing civil organisation is hopelessly inadequate to meet the needs of the country; that it has been starved and understaffed; that all sanitary administrations are in ordinary times under-manned; that civil surgeons are over-worked, colleges and schools under-staffed, and that more deputy sanitary commissioners are required. The Committee further point out that each provincial administration should report to the Government of India the number of posts it would reserve as permanent appointments for officers entering the State Medical Service from the military medical corps, and that the military authorities should state the numbers needed as ordinary war reserve.

If this is done, will it be possible, with the vast field of professional and research work available, to again ensure a supply of good British doctors for India by passing them through the one channel of the military medical service of the Army to the Imperial Indian Medical Service in which they will have opportunities to uphold the distinguished reputation of past and present members of the Indian Medical Service?

If the Government were to announce that the Royal Army Medical Corps was about to be extended to India as the Royal Army Medical Corps (India) with definite conditions of pay, leave and pension for the medical service in India, and that a State Medical Service was about to be instituted under the title Imperial Indian Medical Service to which transfers from existing Indian Medical Service and future Royal Army Medical Corps (India) would be made, without commitment to permanent Indian service, it is extremely probable that good men would be attracted who would not enter the Indian Medical Service under the existing conditions, or an Indian medical corps under the conditions proposed by the Committee.

11. Irrespective of the nature and extent of inducement offered it is improbable that during the next few years there will be a sufficient output of medical men from the British medical schools to fill the vacancies for British officers in the medical service of the Indian Army, and in Indian civil medical appointments necessarily retained for British officers.

If a Royal Army Medical Corps (India) be accepted, it would probably be possible to tide over the period that will elapse before sufficient British candidates, possessing the desired qualities and qualifications for permanent commissions, are available by increasing the number of temporary Royal Army Medical Corps officers now posted to India for duty to an extent that would admit of Royal Army Medical Corps officers, temporary or permanent, being allotted for duty with Indian troops whenever and wherever necessary. Owing to the present serious shortage of British Indian Medical Service officers some 60 Royal Army Medical Corps were

employed with Indian troops and in Indian hospitals during the recent Afghan war. The number has now been reduced, but there is still a number of Royal Army Medical Corps officers so employed.

12. It has been suggested in various documents that an organisation embracing both the military and the civil medical services, as one department, is possible. Those who hold that view obviously had no knowledge or experience whatever of the extent and scope of work to be done, and it is necessary to point out that it would be absolutely impossible for one official head to control the work of the Director, Medical Services of the Army, and that of the office directing the civil medical administration.

13. It has been found impossible to ensure efficient medical control amongst Indian troops, and their efficient treatment in hospital with the large number of Indians employed as temporary officers of the Indian Medical Service unless these officers are supervised and guided by British medical officers. The Indians holding temporary commissions are as a class reported to be very deficient in professional knowledge, personality, and the general qualities which are necessary in a military medical officer. Some of them, a small proportion, are intelligent, keen and capable, and would, under competent and sympathetic direction, develop into useful officers in time, but, as a whole, they cannot be considered in any sense as equal in efficiency to British medical officers. It is therefore imperative that a sufficient number of British medical officers should always be available to ensure that the medical service for Indian troops is kept up to an efficient standard. For the present this can only be done by extending the employment of temporary Royal Army Medical Corps officers for service with the Army in India.

14. If it be decided to endeavour to attract candidates to the present Indian Medical Service by improved conditions and increased pay, it would be most detrimental to the interests of the service in the present state of the market to throw open at one time the large number of existing vacancies. Such a course would inevitably result in obtaining a large proportion of men who, if they were not wholly unsuitable, would be far below the best. This mistake was made on several occasions in the past by the War Office when a large number of commissions in the medical service of the Army were offered under similar circumstances. The medical service of the Army suffered in consequence.

In any case it is time that two departments of the State—the War Office and the India Office—should cease competing with each other for the young medical men necessary to complete the requirements of the British and Indian Armies. Such competitions were at all times a mistake, and they are more so now than ever before. There should be one point of entrance—one examination or one system of nomination arranged by the various Government departments—and the selected candidates should be allotted by suitability and general qualifications to meet the requirements of the various medical services of the State. In the case of the British and Indian Armies all the present circumstances and requirements point to a common entrance through the Royal Army Medical Corps.

15. Whether the officers of the medical service of the Army in India be obtained through the medium of the Royal Army Medical Corps or otherwise, it is of vital importance for the welfare of the Army, and its success in war that a comprehensive and thorough system of instruction in every branch of scientific medical work and of military training, so far as it affects the medical service, should be provided for officers on joining, and subsequently during their service.

The necessity for an Indian Medical Staff College in India has already been referred to. In addition to the instruction in professional subjects that such a college would afford for medical officers of the Army, advantage should be taken of the civil teaching hospitals and schools and of the

research institutions in India. An independent State Medical Service need not prevent the Army arranging to utilise these facilities for instructing medical officers in any special department of medical science. The Director, Medical Services, should keep in close touch with the Directorate controlling medical education in India, and be empowered to send selected officers for courses in special subjects at selected civil medical institutions. Military training of medical officers in India should also be developed and organised on a sound basis. On mobilisation in 1914, the officers of the Indian Medical Service suffered from two great disadvantages. Those with special professional experience were not allotted to positions on mobilisation where their special knowledge could have been utilised with most benefit, and, as a whole, whether in military or civil employment, they had not been put through any comprehensive course of military training in the years before the war.

16. The proposals of the Committee regarding the Medical Stores Department and the Nursing Service will be considered as separate subjects.

C. H. BURTCHALL,

15th October, 1919.

Director, Medical Services in India.

APPENDIX III, No. 1.

INDIAN CIVIL SERVICE,

(The pay is in rupees per mensem.)

Year of Service.	Basic Pay. (Present and Proposed.)		Overseas Pay.		Total Pay.				Additional advantage resulting from remittance at 2s. when exchange is at 1s. 4d.
	Junior.	Senior.	Present.	Proposed.	Present.		Proposed.		
					Junior.	Senior.	Junior.	Senior.	
1	2	3	4	5	6	7	8	9	10
1	450	—	150	150	600	—	600	—	—
2	500	—	150	150	650	—	650	—	—
3	550	—	150	150	700	—	700	—	—
4	600	—	150	150	750	—	750	—	—
5	650	1,000	150	150	800	1,150	800	1,150	75
6	700	1,050	150	150	850	1,200	850	1,200	75
7	750	1,100	200	250	950	1,300	1,000	1,350	125
8	800	1,150	200	250	1,000	1,350	1,050	1,400	125
9	900	1,200	200	250	1,100	1,400	1,150	1,450	125
10	1,000	1,275	250	250	1,250	1,525	1,250	1,525	125
11	1,100	1,350	250	250	1,350	1,600	1,350	1,600	125
12	1,200	1,425	250	300	1,450	1,675	1,500	1,725	150
13	1,300	1,500	250	300	1,550	1,750	1,600	1,800	150
14	1,300	1,600	250	300	1,550	1,850	1,600	1,900	150
15	1,350	1,700	250	300	1,600	1,950	1,650	2,000	150
16	1,350	1,800	250	300	1,600	2,050	1,650	2,100	150
17	—	1,900	250	300	—	2,150	—	2,200	150
18	—	2,000	250	300	—	2,250	—	2,300	150
19	—	2,050	250	300	—	2,300	—	2,350	150
20	—	2,100 (2,150)*	250	300	—	2,350 (2,400)*	—	2,400 (2,450)*	150
21	—	2,150 (2,200)*	250	300	—	2,400 (2,450)*	—	2,450 (2,500)*	150
22	—	2,200 (2,350)*	250	300	—	2,450 (2,600)*	—	2,500 (2,650)*	150
23	—	2,250 (2,400)*	250	300	—	2,500 (2,650)*	—	2,550 (2,700)*	150
24 & over ..	—	2,250 (2,500)*	250	300	—	2,500 (2,750)*	—	2,550 (2,800)*	150

Column 10 shows the advantage expressed in rupees resulting from the concession of remitting overseas pay at the privileged rate of 2s. the rupee. This advantage is not fixed, but varies with the course of exchange. The actual value of it expressed in rupees will be more when the exchange value of the rupee is lower and less when it is higher.

* In Madras only.

APPENDIX III, No. 2.
INDIAN POLICE SERVICE.
 (The pay is in rupees per mensem.)

Year of Service.	Basic Pay.				Overseas Pay.		Total Pay.				Additional advantage resulting from remittance at 2s. when exchange is at 1s. 4d.
	Present.		Proposed.		Present.	Proposed.	Present.		Proposed.		
	Junior.	Senior.	Junior.	Senior.			Junior.	Senior.	Junior.	Senior.	
1	2	3	4	5	6	7	8	9	10	11	12
1	325	—	350	—	125	100	450	—	450	—	—
2	350	—	375	—	125	100	475	—	475	—	—
3	375	—	400	—	125	100	500	—	500	—	—
4	400	—	425	—	150	125	550	—	550	—	—
5	425	—	450	—	150	150	575	—	600	—	75
6	450	600	475	650	150	150	600	750	625	800	75
7	475	625	500	675	150	150	625	775	650	825	75
8	500	650	525	700	150	150	650	800	675	850	75
9	525	675	550	725	200	250	725	875	800	975	125
10	550	700	575	750	200	250	750	900	825	1,000	125
11	575	725	600	800	200	250	775	925	850	1,050	125
12	600	750	625	825	250	250	850	1,000	875	1,075	125
13	625	775	650	850	250	250	875	1,025	900	1,100	125
14	650	800	675	900	250	250	900	1,050	925	1,150	125
15	675	825	700	925	250	300	925	1,075	1,000	1,225	150
16	—	850	—	950	250	300	—	1,100	—	1,250	150
17	—	900	—	1,000	250	300	—	1,150	—	1,300	150
18	—	950	—	1,025	250	300	—	1,200	—	1,325	150
19	—	1,000	—	1,050	250	300	—	1,250	—	1,350	150
20	—	1,050	—	1,075	250	300	—	1,300	—	1,375	150
21	—	1,100	—	1,100	250	300	—	1,350	—	1,400	150
22	—	1,150	—	1,150	250	300	—	1,400	—	1,450	150
23	—	1,200	—	1,200	250	300	—	1,450	—	1,500	150
24	—	1,250	—	1,250	250	300	—	1,500	—	1,550	150
25	—	1,300	—	1,300	250	300	—	1,550	—	1,600	150
26	—	1,350	—	1,350	250	300	—	1,600	—	1,650	150
Selection Grade	—	1,450	—	1,450	250	300	—	1,700	—	1,750	150

Column 12 shows the advantage expressed in rupees resulting from the concession of remitting overseas pay at the privileged rate of 2s. the rupee. This advantage is not fixed, but varies with the course of exchange. The actual value of it expressed in rupees will be more when the exchange value of the rupee is lower and less when it is higher.

APPENDIX III, No. 3.

INDIAN FOREST SERVICE (INCLUDING INDIAN FOREST ENGINEERING SERVICE).

(The pay is in reposes per mensem.)

Year of Service.	Basic Pay.	Overseas Pay.		Total Pay.		Additional advantage resulting from remittance at 2s. when exchange is at 1s. 4d.
	Present and Proposed	Present	Proposed	Present	Proposed	
1	2	3	4	5	6	7
1	325	150	150	475	475	—
2	375	150	150	525	525	—
3	425	150	150	575	575	—
4	475	150	150	625	625	—
5	525	150	150	675	675	75
6	575	150	150	725	725	75
7	625	200	250	825	875	125
8	675	200	250	875	925	125
9	725	200	250	920	975	125
10	800	250	250	1,050	1,050	125
11	850	250	250	1,100	1,100	125
12	900	250	300	1,150	1,200	150
13	900	250	300	1,150	1,200	150
14	950	250	300	1,200	1,250	150
15	1,000	250	300	1,250	1,300	150
16	1,050	250	300	1,300	1,350	150
17	1,100	250	300	1,350	1,400	150
18	1,150	250	300	1,400	1,450	150
19	1,200	250	300	1,450	1,500	150
20	1,250	250	300	1,500	1,550	150
21	1,300	250	300	1,550	1,600	150
22 & over ..	1,350	250	300	1,600	1,650	150

Column 7 shows the advantage expressed in rupees resulting from the concession of remitting overseas pay at the privileged rate of 2s. the rupee. This advantage is not fixed, but varies with the course of exchange. The actual value of it expressed in rupees will be more when the exchange value of the rupee is lower and less when it is higher.

APPENDIX III, No. 4.

INDIAN SERVICE OF ENGINEERS.

(The pay is in rupees per mensem.)

Year of Service.	Basic Pay.					Overseas Pay.		Total Pay.				Additional advantage resulting from remittance at 2s. when exchange is at 1s. 4d.
	Present.		Technical Pay.	Proposed.		Present.	Proposed.	Present.		Proposed.		
	Junior.	Senior.		Junior.	Senior.			Junior.	Senior.	Junior.	Senior.	
1	2	3	4	5	6	7	8	9	10	11	12	13
1	300	—	75	375	—	150	150	525	—	525	—	—
2	350	—	75	425	—	150	150	575	—	575	—	—
3	400	—	75	475	—	150	150	625	—	625	—	—
4	450	550	75	525	625	150	150	675	775	675	775	—
5	450	550	75	525	625	150	150	675	775	675	775	75
6	500	600	75	575	675	150	150	725	825	725	825	75
7	550	650	75	625	725	150	150	775	875	775	875	75
8	550	650	75	625	725	200	250	825	925	875	975	125
9	600	700	75	675	775	200	250	875	975	925	1,025	125
10	650	750	75	725	825	200	250	925	1,025	975	1,075	125
11	700	800	75	775	875	250	250	1,025	1,125	1,025	1,125	125
12	750	850	75	825	925	250	300	1,075	1,175	1,125	1,225	150
13	800	900	75	875	975	250	300	1,125	1,225	1,175	1,275	150
14	850	950	75	925	1,025	250	300	1,175	1,275	1,225	1,325	150
15	900	950	75	975	1,025	250	300	1,225	1,275	1,275	1,325	150
16	—	1,000	75	—	1,075	250	300	—	1,325	—	1,375	150
17	—	1,050	75	—	1,125	250	300	—	1,375	—	1,425	150
18	—	1,100	75	—	1,175	250	300	—	1,425	—	1,475	150
19	—	1,150	75	—	1,225	250	300	—	1,475	—	1,525	150
20	—	1,200	75	—	1,275	250	300	—	1,525	—	1,575	150
21	—	1,200	75	—	1,275	250	300	—	1,525	—	1,575	150
22	—	1,250	75	—	1,325	250	300	—	1,575	—	1,625	150
23	—	1,250	75	—	1,325	250	300	—	1,575	—	1,625	150
24 & over	—	1,300	75	—	1,375	250	300	—	1,625	—	1,675	150

Column 13 shows the advantage expressed in rupees resulting from the concession of remitting overseas pay at the privileged rate of 2s. the rupee. This advantage is not fixed, but varies with the course of exchange. The actual value of it expressed in rupees will be

APPENDIX III, No. 5.

INDIAN EDUCATIONAL SERVICE (MEN).

(The pay is in rupees per mensem.)

Year of Service.	Basic Pay.	Overseas Pay.		Total Pay.		Additional advantage resulting from remittance at 2s. when exchange is at 1s. 4d.
	Present and Proposed	Present	Proposed	Present	Proposed	
1	2	3	4	5	6	7
1	400	150	150	550	550	—
2	450	150	150	600	600	—
3	500	150	150	650	650	—
4	550	150	150	700	700	—
5	600	150	150	750	750	75
6	600	200	250	800	850	125
7	650	200	250	850	900	125
8	700	200	250	900	950	125
9	750	250	250	1,000	1,000	125
10	800	250	250	1,050	1,050	125
11	850	250	250	1,100	1,100	125
12	900	250	300	1,150	1,200	150
13	950	250	300	1,200	1,250	150
14	1,000	250	300	1,250	1,300	150
15	1,000	250	300	1,250	1,300	150
16	1,050	250	300	1,300	1,350	150
17	1,100	250	300	1,350	1,400	150
18	1,150	250	300	1,400	1,450	150
19	1,200	250	300	1,450	1,500	150
20 & over ..	1,250	250	300	1,500	1,550	150
Lower Selection Grade (15 per cent. of cadre).	{ 1,250	250	300	1,500	1,550	150
	{ 1,300	250	300	1,550	1,600	150
	{ 1,350	250	300	1,600	1,650	150
	{ 1,400	250	300	1,650	1,700	150
	{ 1,450	250	300	1,700	1,750	150
	{ 1,500	250	300	1,750	1,800	150
Higher Selection Grade (5 per cent. of cadre).	{ 1,550	250	300	1,800	1,850	150
	{ 1,650	250	300	1,900	1,950	150
	{ 1,750	250	300	2,000	2,050	150

Column 7 shows the advantage expressed in rupees resulting from the concession of remitting overseas pay at the privileged rate of 2s. the rupee. This advantage is not fixed, but varies with the course of exchange. The actual value of it expressed in rupees will be more when the exchange value of the rupee is lower and less when it is higher.

APPENDIX III, No. 6.

INDIAN AGRICULTURAL SERVICES AND INDIAN VETERINARY SERVICE.

(The pay is in rupees per mensem.)

Year of Service.	Basic Pay.	Overseas Pay.		Total Pay.		Additional advantage resulting from remittance at 2s. when exchange is at 1s. 4d.
	Present and Proposed	Present	Proposed	Present	Proposed	
1	2	3	4	5	6	7
1	350	150	150	500	500	—
2	400	150	150	550	550	—
3	450	150	150	600	600	—
4	500	150	150	650	650	—
5	550	150	150	700	700	75
6	550	200	250	750	800	125
7	600	200	250	800	850	125
8	650	200	250	850	900	125
9	700	250	250	950	950	125
10	750	250	250	1,000	1,000	125
11	800	250	250	1,050	1,050	125
12	800	250	300	1,050	1,100	150
13	850	250	300	1,100	1,150	150
14	900	250	300	1,150	1,200	150
15	950	250	300	1,200	1,250	150
16	1,000	250	300	1,250	1,300	150
17	1,050	250	300	1,300	1,350	150
18	1,100	250	300	1,350	1,400	150
19	1,150	250	300	1,400	1,450	150
20	1,200	250	300	1,450	1,500	150
21 & over ..	1,250	250	300	1,500	1,550	150
Selection Grades	1,250	250	300	1,500	1,550	150
15 per cent.	1,300	250	300	1,550	1,600	150
of cadre).	1,350	250	300	1,600	1,650	150
	1,400	250	300	1,650	1,700	150
	1,450	250	300	1,700	1,750	150
	1,500	250	300	1,750	1,800	150

Column 7 shows the advantage expressed in rupees resulting from the concession of remitting overseas pay at the privileged rate of 2s. the rupee. This advantage is not fixed, but varies with the course of exchange. The actual value of it expressed in rupees will be more when the exchange value of the rupee is lower and less when it is higher.

APPENDIX III, No. 7.
INDIAN MEDICAL SERVICE (CIVIL).
(The pay is in rupees per mensem.)

Year of Service.	Basic Pay.	Overseas Pay.		Total Pay.		Additional advantage resulting from remittance at 2s. when exchange is at 1s. 4d.
	Present and Proposed	Present	Proposed	Present	Proposed	
1	2	3	4	5	6	7
As Lieutenant.						
1	500	150	150	650	650	—
2	500	150	150	650	650	—
3	500	150	150	650	650	—
As Captain.						
4	650	150	150	800	800	—
5	650	150	150	800	800	75
6	650	150	150	800	800	75
7	750	200	250	950	1,000	125
8	750	200	250	950	1,000	125
8	750	200	250	950	1,000	125
10	850	200	250	1,050	1,100	125
11	850	200	250	1,050	1,100	125
12	850	200	300	1,050	1,150	150
As Major.						
13	950	250	300	1,200	1,250	150
14	950	250	300	1,200	1,250	150
15	950	250	300	1,200	1,250	150
16	1,100	250	300	1,350	1,400	150
17	1,100	250	300	1,350	1,400	150
18	1,100	250	300	1,350	1,400	150
19	1,250	250	300	1,500	1,550	150
20	1,250	250	300	1,500	1,550	150
As Lieutenant-Colonel.						
21	1,500	250	300	1,750	1,800	150
22	1,500	250	300	1,750	1,800	150
23	1,500	250	300	1,750	1,800	150
24	1,600	250	300	1,850	1,900	150
25	1,600	250	300	1,850	1,900	150
26 & over ..	1,700	250	300	1,950	2,000	150
When selected for increased pay ..	1,850	250	300	2,100	2,150	150

Column 7 shows the advantage expressed in rupees resulting from the concession of remitting overseas pay at the privileged rate of 2s. the rupee. This advantage is not fixed, but varies with the course of exchange. The actual value of it expressed in rupees will be more when the exchange value of the rupee is lower and less when it is higher.

APPENDIX IV (1).

NOTE BY ENGLISH COMMISSIONERS.

Officers above the Time Scales.

Up to the present, officers receiving salaries above the time scale have not received overseas pay.

The refusal of overseas pay to men above the time scale was based on the theory that all officers of this rank, Indian and European alike, should be paid exactly alike, on the general ground that the tenure of these higher posts commonly entails new obligations and expenses which are independent of domicile. That may be true, but ignores the equally patent fact that the extra expenses due to education of children at home, etc., still continue for the European, and the despatches on the general question of overseas pay laid stress on the argument that the essential object of this pay was "to achieve some measure of equality of remuneration and not the reverse." see Despatch No. 169 Public, dated 27th November, 1919, and "the ideal of 'equal pay for equal work' . . . will not be attained by fixing identical rates of salary for all members of the Service, since it is obvious that if Indians and Europeans in identical posts are paid the same amounts the European must in fact be worse off than his Indian contemporary," para. 4, Despatch No. 187 Public, 25th December, 1919.

It must be remembered that when the Indian Civil Service pay was revised, opportunity was taken to abolish exchange compensation allowance. The maximum addition allowable under this head for salaries of Rs.2,222 and over was Rs.138.14.3. The revised scale of pay was introduced when the rupee was above 2s.

Lord MacDonnell's Committee, in recommending substantially increased rates of overseas pay from the fourteenth year of service onwards, added a recommendation that some increment should be given, as overseas pay or otherwise, to officers of non-Indian domicile holding appointments above the time scale in the Indian Civil Service and other services, each case being dealt with on its merits.

The proposals of that Committee gave overseas pay up to Rs.500 a month at the top of the time scale, and it might be assumed that the Committee intended that officers above the time scale should draw overseas pay at this maximum rate.

Our proposals in the Report as to the increase of the overseas pay in the time scales do not give a maximum of Rs.500 a month, but of Rs.300 a month, with a sterling equivalent reckoned at £30, which may be called for the purposes of comparison Rs.450 a month.

In the case of the Indian Civil Service, the pay of the commissioner is fixed at Rs.3,000 a month, and as long as this was Rs.500 a month above the pay of the senior collector on the time scale no change was necessary.

Now, however, that we propose to raise the pay of the collector to Rs.2,700 a month, the difference is so small that collectors might well refuse promotion to commissionerships on the ground that the additional expenses necessary for entertaining, charities, etc., in the higher posts would be greater than the increase in pay.

An alternative method to the grant of overseas pay to commissioners and others above the time scale would be to allow a sterling remittance of say Rs.400 a month of his ordinary salary at 2s. to the rupee, which would give the officer a benefit equal to Rs.200 a month.

The commissioners under this arrangement would receive Rs.500 above the pay of collectors.

The Directors of Public Instruction in the Indian Educational Service get very different salaries according to the size of the provinces, but the best paid director draws the same salary as a commissioner and should receive the same increase. Similarly chief engineers and inspectors-general of police draw up to Rs.3,000. The agricultural adviser and the chief conservators of forests draw up to Rs.2,750. There are certain

officers in the Central Services and elsewhere who draw up to Rs.3,500—e.g., judicial commissioners and members of boards of revenue—and there are some secretaries in the Government of India drawing up to Rs.4,000 a month.

We think all officers whose salaries do not exceed Rs.4,000 a month should be given the increase suggested above by means of permission to remit Rs.400 a month of their pay at a rate of 2s. We cannot, however, recommend any increase for Judges of the High Court or Members of Council whose salaries are fixed by Statute.

(Signed) R. H. CRADDOCK,
CYRIL JACKSON,
D. PETRIE,
R. COWPLAND.

27th March, 1924.

I strongly support the above proposal and regard it as essential, no less in the interests of recruiting than in justice to the holders of these appointments, that this very moderate addition should be made to their emoluments.

Otherwise there will be very little inducement to officers on the ordinary time scale to seek promotion, and it will be very difficult to persuade the best men to accept appointments which may entail heavier responsibility and greatly increased expenditure on entertaining and other unavoidable charges.

A service without "Prize Posts" must offer few attractions to ambitious men, and it cannot be in the interests of India, for the sake of a trifling economy, to offer no encouragement to present and possible holders of these few high administrative posts.

(Signed) LEE OF FAREHAM.

27th March, 1924.

APPENDIX IV (2).

NOTE BY INDIAN COMMISSIONERS.

Officers above the Time Scales.

1. In the case of officers above the time-scale, there has, so far, been no distinction in emoluments between the Indian and the European members of the Superior Civil Services. The principle of equality of emoluments in such posts as those of Judges of the High Court and Members of the Executive Council is of long standing and the Islington Commission, after full consideration of the question, recommended that the same principle should apply to all appointments above the time-scale. This recommendation was accepted by His Majesty's Government and is now in force.

2. According to the proposals contained in our Report, all officers above the time-scale will receive the benefit of passage and other concessions which we have recommended for European members of the Services. But our European colleagues wish that over and above these concessions, the officers holding the higher administrative posts should be allowed to remit Rs.400 per month out of their pay at the rate of 2s. to the rupee.

3. Before discussing the merits of this proposal, we wish to note that a unanimous recommendation has been made in paragraph 55 of our Report raising the pay of the lower class of administrative officers, viz., the deputy inspector-general, the superintending engineer, and the conservator of forests from Rs.1,750-100-2,150 to a fixed pay equal to the existing maximum, i.e. Rs.2,150. This was considered advisable owing to the fact that the improvements made by concessions resulted in the maximum of the total emoluments of the officers on the time-scale overlapping the present minimum of the sliding scale sanctioned in the case of officers holding the lower administrative posts. We are, therefore, now concerned

only with the higher administrative officers, such as commissioners, inspectors-general of police, chief engineers and chief conservators of forests, and, according to our European colleagues, even those drawing as high salaries as Rs.4,000 a month.

4. In dealing with the need for increasing the emoluments of the Services, the question before us is not one of bettering the pay of Services generally in all grades and classes, but of meeting the most pressing needs of the European members thereof.

5. The general trend of evidence given before us is that hardship is felt mainly in the middle married grades, and that the officers in the earliest and latest stages are not hard hit. It is on this ground that the Commission has unanimously decided to make no improvement in the earlier years, and we are emphatically of opinion that no relief is actually needed in the case of officers holding the higher administrative appointments.

6. We think it would be politically unwise and administratively mischievous to give effect to the doctrine, now sought to be introduced, that if Indians and Europeans in high administrative posts are paid the same amounts, the European must in fact be worse off than his Indian contemporary, and that consequently the income of the European must be supplemented in one form or another. The proposal of our European colleagues to thus differentiate between the European and Indian incumbents of high administrative appointments would cause deep resentment among the latter, who, when holding such high appointments, have to incur heavy expenses befitting the rank and position apart from meeting their social and other obligations which increase proportionately and add considerably to their pecuniary liabilities, with the result that their total expenses are in no way less than those of their European contemporaries. We wish to sound a note of warning that any attempt to yield to the suggestion made by our European colleagues will inevitably lead to an agitation on the part of Indian officers holding these positions which it will be neither reasonable nor prudent to resist.

(Signed) BHUPENDRANATH BASU,
M. HABIBULLAH,
HARI KISHAN KAUL,
N. M. SAMARTH.

27th March, 1924.

APPENDIX V.

ARTICLES OF AGREEMENT FOR SERVICE IN THE INDIAN EDUCATIONAL SERVICE.

OFFICERS OF NON-INDIAN DOMICILE APPOINTED WHILE IN ENGLAND.
ARTICLES OF AGREEMENT, made the day of one
thousand nine hundred and twenty

BETWEEN

of the first part, and THE SECRETARY OF STATE FOR INDIA IN COUNCIL
of the second part.

WHEREAS the Secretary of State for India in Council has engaged the party of the first part to serve His Majesty in India as in the Indian Educational Service for the probationary terms and at the pay hereinafter mentioned and subject to the conditions and agreements hereinafter contained.

NOW THESE PRESENTS WITNESS and the said parties hereto respectively agree as follows :—

1. That he will, on being provided with a first-class passage to India, proceed thither within such time as may be prescribed by the Secretary of State for India in Council.
2. That he will, on arrival in India, forthwith proceed to and report himself to the Officers of Government there, and will submit himself to the orders of the Government and of the Officers and authorities

under whom he may from time to time be placed by the Government and will remain in the service for the probationary term of two years commencing from the date of his reporting his arrival at the said and that he will at all times obey the rules prescribed for the time being in the memorandum of information furnished to Candidates or otherwise for the regulation of the branch of the public service to which he may belong, and will, when required by the Government, proceed to any other part of the Presidency or province within which he may be serving or to any other Presidency or province in India, and there perform the duties of any specified office in the cadre of the Indian Educational Service.

3. That he will devote his whole time to the duties of the service, and will not engage, directly or indirectly, in any trade, business or occupation on his own account, and that he will not (except in case of accident or sickness certified by competent medical authority) absent himself from his said duties without having first obtained permission from the Government or its authorised Officers.

4. That if he shall during the said term of two years, or if the service shall continue beyond such term, during the next succeeding three years, relinquish the service of the Government (whether after having given notice or otherwise) he shall forthwith on demand pay to the Secretary of State for India in Council the cost of his passage to India.

5. That the Secretary of State for India in Council may at any time during the said term of two years, or, if the service shall continue beyond such term, at any time thereafter, dispense with his services without notice in the event of misconduct on his part or of a breach by him of any of the conditions herein specified.

6. That it shall be lawful for the Secretary of State for India in Council prior to the expiration of his service under these presents, if satisfied on the report of the duly constituted advisory Medical Board that he is unfit and is likely for a considerable period to continue unfit by reason of ill-health for the discharge of his duties in India, to determine the service under these presents (the decision of the Secretary of State for India in Council being conclusive), and thereupon his services shall be terminated.

7. That he shall, within the period or periods prescribed by the rules and regulations relating to examinations in vernacular languages for the time being in force in the Presidency or province within which he may be serving, and generally in accordance with, and subject to, such rules and regulations, pass an examination or examinations in such vernacular language or languages as may be required by the Government, and on failure to pass such examination or examinations shall be liable to the penalties prescribed by the said rules and regulations. Provided that if he shall fail to pass an examination in such one of the prescribed vernacular languages as may be required within the said period or periods the Secretary of State for India in Council may, notwithstanding anything in the next clause or the said rules and regulations contained, dispense with his services.

8. That, except as provided in Clauses 5, 6 and 7 hereof, unless he shall receive notice in writing from some authorised Officer of the Government three calendar months before the expiration of the said term of two years that the Secretary of State for India in Council no longer requires his services, or unless he shall give notice in writing to the Government three calendar months before the expiration of the said term of two years, that he is desirous to put an end to his service under these presents, he will continue in the service of Government upon the like terms and conditions as are herein contained so far as the same are applicable, except that he shall not be entitled to receive notice of termination of his service under Government otherwise than as may be provided by the rules for the time being in force applicable to his case.

9. That from the date of his arrival at the said the Govern-
ment will pay him so long as he shall remain in the said service and actually perform the said duties, pay in accordance with the scale set forth in the

memorandum of information above referred to, provided that for the purposes of the scale he shall receive initial pay at the rate of Rs.

per mensem and overseas pay at the rate of Rs. per mensem
and subsequent increment shall have effect annually where admissible on
and from the one thousand nine hundred and twenty.

10. That he shall not, except as provided in this agreement, resign his appointment without the sanction of the Secretary of State for India in Council.

11. That on the determination of the service at the expiration of the said term of two years (but not upon any subsequent determination), and if he shall actually quit the said service in India, or if prior to the expiration of the said term of two years, the service shall be determined by the Secretary of State for India in Council under the provisions of Clause 6 of these presents, and if he shall actually quit the said service in India, the Government will provide him with a first-class passage back to England at the public expense, provided he claims such passage within three months from any such determination of the service as is mentioned in this clause, and leaves India on his return to England within such time as he may be directed.

12. That he will, during his continuance in the service, pay such subscriptions to the General Provident Fund as shall be payable under the rules for the time being in force (by which rules he agrees to be bound); and it shall be lawful for the Government to deduct the said subscriptions from any money that may be payable to him under these presents or otherwise.

13. That if he shall continue to serve Government under these presents after the said term of two years, his service (commencing from the date of his entering on the performance of his duties as aforesaid) shall count as service towards leave and pension under such rules as regards leave and pension as may for the time being be applicable to his case. PROVIDED ALWAYS that in case of any dispute as to the interpretation of any of the said rules, or otherwise relating in any way to them, the decision of the Secretary of State for India in Council shall be conclusive. He shall be entitled to add years to his service counting for superannuation pension.

14. That in any payments made in the United Kingdom under these presents, the rate of exchange then applicable to the class of transaction concerned, as decided by the Secretary of State for India in Council from time to time, shall be observed.

15. That the proceedings, letters, and reports of the Governor-General of India in Council, or of any of the Local Governments, and of all others the officers and agents of Government, or any copies thereof or extracts therefrom, which shall be sent officially to the Secretary of State for India in Council, or to any officers or servants in the Indian Service of His Majesty in England or elsewhere, in any way relating to the sums of money to be paid or allowed to the party of the first part, or to his conduct, or in any way relating to the premises, shall be received as evidence of any matter therein contained in any action or in any legal proceedings by or between the parties to these presents, or in any way relating thereto.

IN WITNESS whereof the party of the first part and

being two members of the Council of India have hereunto set their hands the day and year first above written.

Signed by the party of the first part }
in the presence of— }

Signed by the above-named two }
Members of the Council of India in }
the presence of— }

APPENDIX VI.

EXTRACT FROM MACDONNELL COMMITTEE'S REPORT—ANNEXURE III.

Minute by Professor R. Coupland and Mr. C. A. Elliott.

1. The most effective means of informing and influencing University opinion seems to us to be the establishment of some form of *liaison* between the India Office and influential Dons.

2. At Oxford a Committee of such Dons has already been set up, with the Master of Balliol in the chair, to consider the question of the Indian Civil Service as a career for Oxford men. The India Office might co-operate with this Committee on the following lines :—

- (1) Authoritative information might be supplied to the Committee as to the development of events in India, especially where questions directly affecting the conditions and prospects of the Indian Civil Service are concerned.
- (2) Information might be supplied to enable a leading member of the Committee to write to the Press correcting any misleading letters that may be published therein by members of the University.
- (3) Arrangements might be made for distinguished members of the Indian Civil Service, home on leave, to meet the Committee and discuss the question of recruitment; and the Committee might arrange for such men to address private or public meetings of undergraduates.

3. At Cambridge such a committee as is proposed for Oxford would hardly be necessary as it would be possible there to make use of the existing machinery of the Appointments Board. The Appointments Board is a strong and active body containing representatives of all Colleges. Most undergraduates place their names on its books during their careers at Cambridge, and the majority of those who wish for posts after graduation obtain them through the Board. It is suggested, therefore, that the India Office should periodically supply to the Appointments Board, or to a Committee of the Board which might be appointed to deal with the recruitment of the Indian Services, information on the lines suggested in paragraph 2, sections 1 and 2 above, and also if such a committee were created arrangements might be made with it on the lines suggested in paragraph 2, section 3 above.

R. COUPLAND,
C. A. ELLIOTT.

APPENDIX VII.

ESTIMATE OF THE COST OF THE RECOMMENDATIONS IN THE REPORT.

Note.—All the following calculations are based on exchange at 16*d.* the rupee. With a higher exchange, the cost will diminish.

<i>Immediate Increased Cost (First Year of Introduction).</i>																																																					
<i>Pay and remittance concessions</i> ..	<table style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 10%;">I.C.S. ..</td><td style="width: 10%;">..</td><td style="width: 10%;">18.6</td><td style="width: 10%;">lakhs</td></tr> <tr><td>I.P.S. ..</td><td>..</td><td>12.7</td><td>"</td></tr> <tr><td>I.M.S. (Civil) ..</td><td>..</td><td>7.0</td><td>"</td></tr> <tr><td>I.E.S. (Men) ..</td><td>..</td><td>3.3</td><td>"</td></tr> <tr><td>I.F.S. ..</td><td>..</td><td>3.4</td><td>"</td></tr> <tr><td>I.S.E. ..</td><td>..</td><td>10.9</td><td>"</td></tr> <tr><td>I.A.S. ..</td><td>..</td><td>.8</td><td>"</td></tr> <tr><td>I.V.S. ..</td><td>..</td><td>.4</td><td>"</td></tr> <tr><td colspan="4" style="text-align: right;">57.1 lakhs</td></tr> <tr><td colspan="4" style="text-align: right;">Other Services (approximately)</td></tr> <tr><td colspan="4" style="text-align: right;">13.0 to 15.0 lakhs</td></tr> <tr><td colspan="4" style="text-align: right;">Total (approximately)</td></tr> <tr><td colspan="4" style="text-align: right;">70.1 to 72.1 ..</td></tr> </table>	I.C.S.	18.6	lakhs	I.P.S.	12.7	"	I.M.S. (Civil)	7.0	"	I.E.S. (Men)	3.3	"	I.F.S.	3.4	"	I.S.E.	10.9	"	I.A.S.8	"	I.V.S.4	"	57.1 lakhs				Other Services (approximately)				13.0 to 15.0 lakhs				Total (approximately)				70.1 to 72.1 ..			
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<i>Passages</i>	25.0 ..																																																				

The total cost may increase *slightly* in the next few years, as it is based on present strength and owing to almost complete cessation of recruitment of Europeans during the years of the war, there is now a shortage of officers in the sixth to ninth years of service, as well as an excess in the first four years of service. The latter get no immediate benefit from our proposals, but will begin to do so shortly. The excess will, however, be soon counterbalanced by savings following from retirement of European officers and their replacement by Indians.

This amount will increase by 1.2 lakhs every year till it reaches its maximum, which may provisionally be put at about 19 lakhs.

This amount will similarly increase by .18 lakhs every year till it reaches its maximum of about 2½ lakhs.

The actual cost may be higher in the immediate future owing to the fact that a larger number of officers than the normal may avail themselves of the concession, but any increase in cost immediately will be counterbalanced by a consequential reduction in later years. The cost will, moreover, go on decreasing proportionately with the decrease in the number of European officers.

	<table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td style="padding: 2px;"><i>Total (First Year)</i></td> </tr> <tr> <td style="text-align: center; padding: 2px;">96.5 to 98.5 lakhs</td> </tr> </table>	<i>Total (First Year)</i>	96.5 to 98.5 lakhs	The total annual cost of all concessions recommended will gradually rise until it reaches about 1½ crores. It will subsequently fall, as Indianisation makes itself felt.
<i>Total (First Year)</i>				
96.5 to 98.5 lakhs				
<i>Other (minor) concessions</i> It has not been possible to evaluate these with any approach to precision.				

Note.—(1) It is not possible to estimate the *ultimate* cost resulting from the recommendations as regards pay and remittance concessions, as it depends on two variable factors: (i) the number of Europeans that will be employed in Service in those departments where the recruitment is proposed to be left to the Local Governments, and (ii) the rates of pay that may be fixed by Local Governments for them. The extra cost of our recommendations is, however, bound to be partly counterbalanced by savings in overseas pay, resulting from the replacement of Europeans by Indians. It has been roughly estimated that the ultimate cost of the Indian Civil Service and the Indian Police Service (when the cadres consist half of Europeans and half of Indians) will compare with the present cost (including cost of concessions recommended) as follows:—

	<i>Present.</i>	<i>Ultimate.</i>
(Including cost of concessions recommended.)		
Indian Civil Service	328 lakhs	287 lakhs
Indian Police Service	100 "	94 "

(2) The cost of the increase in pensions of Uncovenanted Services will similarly fall as the decreasing number of Europeans in the Service comes to be reflected in the number of retirements, seeing that pensions drawn in England are paid at a favourable rate of 1s. 9d. the rupee.

The estimated cost of the total expenditure on the Royal Commission including the cost of printing is Rs. 4,70,000.

MINUTES RELATING TO THE REPORT BY COMMISSIONERS SIGNING THE REPORT.

MINUTE BY PROFESSOR COUPLAND ON THE CONTROL OF THE SERVICES.

1. In the following minute I propose to explain, in greater detail than was possible in the body of the Report, the constitutional principles which, over and above various practical considerations, determined my adherence to the recommendations made in paragraphs 12 to 19 of the Report with regard to the control of the Services.

2. The preamble to the terms of reference of the Royal Commission referred to "the experience now gained of the operation of the system of government established by the Government of India Act in respect to the Superior Civil Services in India." It may be assumed, therefore, that, on the constitutional or "organisation" side of its enquiry, the Royal Commission was not expected to consider any drastic change in the basic principles of the Act. Its presumptive task was, rather, to enquire as to whether any modification of the existing position of the Services was desirable without violating those basic principles. Hence it seems worth while to examine as briefly as possible what those principles are; how they were intended to operate by the Secretary of State and his advisers when they framed the Government of India Bill and by Parliament, when it enacted it; and in what manner the recommendations of the Report referred to above conform to them.

3. The constitutional system established by the Act for the government of the Provinces need not here be explained. Dyarchy, or the division of the field of government into two parts, one of which, the "reserved," is administered by the Governor and his Executive Council and the other, the "transferred," by the Governor acting with his Ministers, is familiar enough. But the position of the All-India Services working under that system may not be so well understood. It was not, of course, forgotten by those who framed and passed the Bill. It was examined and discussed by all the principal authorities concerned—by Mr. Montagu and Lord Chelmsford in their Report (22nd April, 1918); by the Government of India on various occasions, and particularly in their *Memorandum on the Public Services under Reforms* (1918), and in their *First Dispatch on Indian Constitutional Reforms* (5th March, 1919); by the Committee on Division of Functions in their Report (26th February, 1919); by the Secretary of State, particularly in the *Memorandum regarding the Bill* which he laid before Parliament (29th May, 1919); and by Parliament in the Joint Select Committee's Report (17th November, 1919), and in the debates in both Houses on the Bill. With so much material it is easy to determine what the position of the Services under the new system of government was intended to be.

4. This minute is concerned mainly with the All-India Services, and only with the question of their control. Nothing need be said here, therefore, as to the general treatment of those Services in the Bill and the discussions which preceded it—as to the need for maintaining a strong British element therein, as to the changed character of their functions under the new dispensation, as to their rights and remuneration, and so forth. The question to be dealt with here is the control of the All-India Services, or, more specifically, what authority is to be responsible for their recruitment, for the conditions of their service, and in the last resort for their discipline and conduct.

5. That this question of control should have arisen at all was mainly due to the introduction of the new system of dyarchy. Though some All-India Services, notably the Indian Civil Service, are employed both in

the reserved and in the transferred field, for practical purposes the Services as a whole could roughly be differentiated as Services operating in the one field or the other. The position of those whose work was to lie in the reserved field was only slightly and indirectly affected. But the case of those who were to work in the transferred field was obviously different. One of the two cardinal principles of the new system was that the measure of responsible government in transferred subjects should be as complete and real as possible. In the words of the Joint Select Committee's Report, Ministers were to have "the fullest opportunity of managing that field of government which was entrusted to their care." And it was clearly recognised that it was not logically consistent with this principle to maintain for the execution of Ministers' policy in that field a group of Superior Civil Services (the Indian Educational Service, the Indian Agricultural Service, the Indian Civil Veterinary Service, the Indian Service of Engineers in the Roads and Buildings department in all provinces except Assam, and the Indian Forestry Service in Bombay and, later, in Burma) the recruitment and ultimate control of which were vested not in Ministers and Legislative Councils, but in the Secretary of State and Parliament. But, at the same time, it was also recognised that to change the structure of the public service simultaneously with a change in the structure of the Government might fatally handicap the operation of the new system. "It would be unfair to expect Ministers new to responsibility," said the Montagu-Chelmsford Report, "to assume the burden of office unless they could command the assistance of the present highly trained Services. To require them to inaugurate new Services for their own departments would, we think, be to saddle them with difficulties that would doom the experiment to failure" (paragraph 269). The Government of India, therefore, recommended that "when a Minister is placed in charge of a transferred department he will take it over as a going concern with its staff intact." (*Memorandum*, paragraph 20; *First Reforms Dispatch*, paragraph 60). The policy of the Government of India on all major Service questions of this kind was accepted by the Committee on Division of Functions (Report, paragraph 69) and by the Secretary of State (*Memorandum to Parliament*, clause xxiv); and on this understanding the Bill was passed by Parliament.

6. Thus the retention of Services operating in the transferred field and yet controlled by the Secretary of State, was decided on as a temporary expedient, as an element in a constitutional system which was in essence not static but transitional. How long this particular element in the system should endure was meant to be dependent, like all the rest of the system, on the results of experience. But it must always have been manifest that the change, when it came, would have to be gradual. Services recruited in the past by the Secretary of State on an All-India basis cannot be handed over *en bloc* to the control of Ministers without the consent of every member of them: the only practicable method of reconstituting these Superior Services on a provincial basis is for the Secretary of State to cease to recruit for them, and for Ministers to begin building them up afresh from the bottom as the old All-India personnel automatically diminishes. This is the process the inception of which is recommended in the Report. Since, in the ordinary course, the younger of the existing officers will still be serving 20 years hence or more, the second decennial period will have elapsed before the replacement is complete: and for some years to come the numbers of the new Provincial Service officers will be very small. It is impossible to argue that if Ministers and Legislative Councils can safely be entrusted with the general control of the transferred field of government, they are not now qualified to bear this additional measure of responsibility.

7. It accords, secondly, with the spirit of the Reforms to give due weight in a question of this nature to the wishes of Ministers themselves, especially since it was their interests that primarily determined the

provisional settlement of the question in 1919. Now in the light of the evidence it would be idle to pretend that Ministers and Legislative Councils, or, indeed, the members of the Services themselves are content with the existing arrangement. Both sides feel that they are suffering from an anomalous and unstable position. It is true that the general tenour of the evidence received from members of the Services concerned is that they have no complaint to make of their treatment by Ministers, while the evidence of Ministers is that they have been served well and loyally by the members of the Services. So far, indeed, as personal relations are concerned, there is no reason why a Minister should feel that his authority is in any way different from that of a Member of the Executive Council. He may perhaps in certain cases have a preference for his own agents, but there is no reason to suppose that in general the Ministers have not realised and indeed frankly acknowledged the advantage they have derived from having thoroughly experienced and trained agents at their hand. None the less, the existing system has undoubtedly become irksome to them. The time has come, they say, when they feel that they can safely begin to appoint their own agents on their own terms. They want henceforward to be free from all restrictions in the matter, save such as may be imposed, on their own initiative, by their own Provincial Legislatures. Of those restrictions, the most troublesome perhaps is the rule which makes it impossible for a Minister to create or abolish a permanent post in any of the main Services under his orders, or to increase or reduce the cadre of these Services, without obtaining the previous sanction of the Secretary of State in Council. It might well happen that such a restriction would prevent a Minister from carrying out some scheme of reorganisation which he considered to be of the first importance. A scheme in a transferred department approved by the Legislative Council might be in effect vetoed by the Secretary of State. (It may be noted, in passing, that on the one hand Local Governments have shown a tendency of late to refrain from filling up vacancies in the cadre of the All-India Services in the transferred field, while, on the other hand, it has been virtually impossible in recent years to obtain qualified British recruits for Services whose future seemed so uncertain). Such a position, it is argued, is hardly consistent with the spirit of the constitution. Save only in the matter of the Services, the Secretary of State has divested himself to the furthest practicable limit of his powers of superintendence, direction and control over Provincial administration in the transferred field. Now that Ministers are prepared to build up new Services on their own account, this limitation to their powers of self-government and to the fulness of their responsibility to their Legislative Councils is no longer logically justifiable. Existing members of the Services must, it is admitted, retain their existing rights; but it does not seem to follow, from the principles which led to the retention of the present staff, that Ministers should not now be allowed, in co-operation with their local legislatures, to begin, as vacancies occur, to build up their own staffs in their own way.

8. In meeting these claims and accepting these arguments, the recommendations made in the Report seem to be in harmony, not only with the great body of political opinion in India, but also with the principles and purposes of the authors of the Government of India Act and of Parliament.

9. It is recommended that the new Services which are gradually to take over the duties now performed by the All-India Services in the transferred field should be free from all extra-provincial control, i.e., from that of the Government of India as well as from that of the Secretary of State. This, again, concurs with the intentions of the Reforms; for the new Services must be Provincial Services, if the above arguments are sound, and it was certainly intended that all Provincial Services working in the

transferred field should in due course be wholly controlled by Provincial authorities. In its *Memorandum* (paragraph 22) and *First Reforms Despatch* (paragraph 52), the Government of India explicitly recognised that " a time must come, and may come soon, when Ministers will wish to take the Provincial Services of their departments entirely into their own hands and to regulate their pay, pensions, recruitment, etc." But they went on to say : " We think that they should not do so until they have put these matters on a legal basis by legislation." Special reference was made to one item in such legislation. " As regards pensions, we think it necessary, before the reformed constitution takes effect, to set Ministers an example by legislating ourselves in the Indian legislature to secure the pensionary rights of all the Provincial Services." (*Memorandum*, paragraph 29. *Despatch*, paragraph 52). Finally, the Government of India, in the second of the two paragraphs, in which they summed up what they described as "their general scheme," reasserted the need for the Government of India and the Indian legislature on the one hand and Local Governments and legislatures on the other to take their respective parts in establishing the Provincial Services on a legal basis. As on most other Service questions, these proposals were accepted by the Division of Functions Committee, by the Secretary of State, and by Parliament ; and Section 96 B (2) was inserted in the Bill in order to facilitate their execution. The recommendation by this Royal Commission, as to the passing of Public Service Acts (Report, paragraph 16), thus clearly corresponds with the intentions of the Reforms.

10. This minute has so far been concerned with the All-India Services operating in the transferred field. It remains to deal with those operating in the reserved field (the Indian Civil Service, the Indian Police Service, the Indian Forest Service, except in Bombay and Burma, the Indian Service of Engineers in the Irrigation Department in all Provinces, and the whole of that Service in Assam), the argument being limited as before to the question of control. Here, again, the purpose that inspired the Government of India Act is not in doubt. (1) The All-India Services as a whole were to remain under the control of the Secretary of State. (2) The Superior Services in the reserved field would continue to be All-India Services. Only with regard to Services operating in the transferred field was it suggested that in course of time they might be replaced by Services under any other control. (3) The existing status of the All-India Services was to be defined and confirmed by law. On both points the documents are again unambiguous and decisive. The first of the two paragraphs summarising the "general scheme" of the Government of India as expounded in their *Memorandum* is as follows : " Concurrently with reforms, legislation should be undertaken in Parliament to declare the tenure and provide for the classification of the public services. It should secure the pensions of the (All) India Services, and should empower the Secretary of State to make rules for their conduct and rights and liabilities, and to fix their pay and regulate their allowances. The Bill should also provide for the establishment of the Public Service Commission and its duties." The *First Reforms Dispatch* reaffirms this policy. 'Hitherto,' it says, ' the regulation of the Services has been to a great extent uncodified or codified only by executive orders. . . . No time should be lost in reducing to statutory form the main rights and duties of the Services in India, in so far as they are not already prescribed by law or rule.' As regards the All-India Services, ' we consider that recruitment, whether in England or in India, should be according to the methods laid down by the Secretary of State, and that all persons recruited should be appointed by that authority.' (Paragraphs 44 and 45.) These proposals were accepted by the Division of Functions Committee and the Secretary of State. They were embodied in the Act in Sections 96 B, 96 C, and 97 to 100 inclusive. And in the Memorandum he laid before Parliament by way of explanation of the Bill, the Secretary of State declared, in particular, that ' members of All-India Services will continue as at present to be appointed by the Secretary

of State in Council, and the conditions of their service will be regulated by the same authority, which alone will have power to dismiss them.' (Clause xxiv.)

11. This decision was dictated by the second of the two cardinal principles of the Reforms. If the one principle was to make Ministers and Legislative Councils responsible in the fullest practicable degree for the good government of the transferred field, the other principle was that the Secretary of State and Parliament must remain no less fully responsible for the good government of the reserved field. It was never intended that this reserved responsibility should be diminished or delegated by degrees. The only change contemplated was the single change involved in the transfer, when the time should be ripe, of a subject or subjects in the first instance reserved. As long as such subjects should be reserved, the responsibility of Parliament with regard to them was to remain complete. It follows that the Secretary of State must continue to control the All-India Services operating in the reserved field. Only through the Secretary of State can Parliament's responsibility be fulfilled; it cannot be fulfilled through any other agency if responsible government is to be interpreted and practised in accordance, not merely with constitutional forms, but with the well-established lessons of political experience. And the Secretary of State, on his part, can only discharge this duty if he controls the Services concerned. The character and functions of the Superior Civil Services in India and especially the Indian Civil Service are necessarily different from those of the Civil Services in England. Scattered over wide areas, they are more directly involved in the executive government of the country than the mass of officials in Whitehall. The handling of local questions by any single member of them may immediately and drastically affect the interests of the population for good or ill. A collector's mistake on a communal issue might conceivably lead to widespread rioting and bloodshed. An engineer's negligence in the supervision of canals might conceivably result in a disastrous failure of the crops. The responsibility, in fact, is too great at all points to be broken up. It must form from link to link a single chain. In other words, the Secretary of State cannot, in any valid or effective sense, discharge his trust to Parliament for the good government of the reserved field unless he controls the making and maintenance of the executive machine on the efficiency of which good government primarily depends.

12. Hence, in the opinion of the writer of this minute, the recommendation in the Report (paragraph 13) with regard to the Services in the reserved field is no less in consonance with the principles of the Reforms than the recommendation with regard to the Services in the transferred field: and it was on this ground, as far as the constitutional side of the question was concerned, that he was unable to accept the proposal urged by several Indian witnesses that the Secretary of State should delegate his powers of control over the All-India Services to the Government of India. Against this proposal the arguments stated in the preceding paragraph seem still to be as decisive as they seemed to the authors of the Government of India Act in 1919.*

13. A few words may be said, finally, with regard to the constitution of the All-India Services operating in the reserved field. Under the existing system they are, of course, composed of Europeans and Indians in certain fixed proportions; but a radical change in this system was pressed on the Commission by many witnesses of high authority, both official and unofficial. The suggestion was that only the holders of that proportion of posts which was reserved for Europeans should in future

*The purposes for which Section 96 B(2) was inserted in the Act are clear from Mr. Montagu's *Memorandum to Parliament*, clause xxiv, and from the *First Reforms Despatch* therein referred to.

constitute, for example, the Indian Civil Service; and that the other vacancies as they occurred should be filled by Indians as members of Provincial Services, whether the posts were added to the existing Provincial Services or organised in superior divisions thereof. The arguments in support of this suggestion were as follows:—

- (a) The quality of the Indians who have been recruited for some years past for the Indian Civil Service is not appreciably higher than the quality of the Indians recruited for the Provincial Services. If this is so, it is anomalous that Indians should be brigaded in different Services with different status and different rates of pay.
- (b) The rates of pay offered for the Provincial Services are adequate to obtain the best material available. If all Indians were recruited on a Provincial basis a considerable economy could be effected without any loss of efficiency, since the actual Indians recruited would be the same men. It is on this ground especially that this proposal has been put forward by some of the Retrenchment Committees, largely composed of non-official Indians, e.g., those in Bombay, the Central Provinces, and Bengal.
- (c) If the recruitment of Indians is continued on an All-India basis, certain Provinces will obtain a disproportionate share of appointments, owing to their possessing higher standards of education. Moreover, Provincial Governments have shown an increasing unwillingness to accept recruits from Provinces other than their own; and recruits so posted have not uncommonly felt themselves regarded by local opinion as undesirable strangers and have not enjoyed the same prestige as might have been accorded to officials recruited on a Provincial basis.
- (d) If the Indian Civil Service were in future restricted to European recruitment, such recruitment would be stimulated. To serve in a European *corps d'élite*, with its self-contained cadre and sequence of promotion, would remove some of the difficulties which at present tend to discourage young Englishmen from entering the service.

14. This case clearly deserved the fullest possible consideration, but the arguments that can be urged against it seem to outweigh those in its favour. They are as follows:—

- (a) It has been stated in paragraph 11 of this minute that the responsibility of Parliament for the reserved field of government in India is one of the two cardinal principles in the present constitution, and that Parliament cannot properly discharge that responsibility, except through an agency recruited and controlled by the Secretary of State. It seems incompatible with those axioms to separate a public service which operates in a reserved department into two sections, one of which is European, recruited and controlled by the Secretary of State, and the other Indian, recruited and controlled by a Provincial Government. It makes no difference whether the agency is European or Indian; for the whole of it, and not merely a section, the Secretary of State and Parliament must be ultimately responsible. The machine which in each reserved department fulfils the higher duties of administration must be a single machine. From the Governor down to the youngest recruit it must feel it is a single body, performing one coherent task and obeying, in the last resort, one rule. Moreover, to bisect the Superior Civil Service, for example, would produce the anomaly that one district in a Province would be in the charge of an officer amenable to no higher control than that of the Provincial Government and Legislature, while an adjacent district would be in the charge of an officer ultimately

controlled by the Secretary of State and Parliament; and it would produce the further anomaly that work in adjacent districts of precisely the same kind and requiring precisely the same qualities would be done by officers of different status and different prestige and paid at different rates. It is true that officers of the All-India services are, in the first instance, under the immediate control of the Provincial Government, but the ultimate control is still the Secretary of State's; and, as has been shown in paragraph 11 of this minute, that ultimate control means more than a constitutional formality. It is true, again, that the anomaly has been for some time in existence on a small scale. Under the system of listed posts, members of the Provincial Service have already been discharging the same functions as members of the Indian Civil Service. But the existence of an anomaly is no excuse for its perpetuation, still less for its extension to a wider field. And in all other Services than the Indian Civil Service, officers promoted from a Provincial Service have taken full rank as members of the All-India Service.

- (b) The policy of the European *corps d'elite* was vigorously repudiated by every representative, who gave evidence before the Commission, of the existing Indian members of the All-India Services. There are two main reasons for this attitude. First, they feel that the proposed bisection of the service would give to future Indian officers, both in their own eyes and in those of their people, a degrading sense of inferiority; and, secondly, they argue (and the evidence showed that the argument is well founded) that, so far from requiring a lesser degree of such additional protection as membership of an All-India Service can afford from the antagonism and interference of local politicians than their European colleagues, they require it in an equal, if not sometimes in a greater, degree.
- (c) Nor would the bisection improve the position of the European officers. One of the difficulties under which they have been labouring is the racial antagonism which a certain class of politician has striven to excite against them. When the extremist Indian newspapers inveigh against the "Heaven-born service," they are thinking mainly of its European members. Separate these Europeans from their Indian fellow-officers, constitute them as a wholly European service, and you will greatly facilitate and intensify this kind of propaganda.
- (d) To accept the principle, moreover, that, except in so far as Europeans are required for the services operating in reserved fields, those services should be provincialised seems to prejudice the future development of the constitution. It is held in some quarters that the development of the constitution will ultimately lead to full Provincial autonomy; but this is not a matter with which this Royal Commission is concerned. It may well be that it will ultimately be decided to maintain, at any rate, the Services responsible for the maintenance of law and order on an All-India basis. To make proposals at this moment tending in a contrary direction might seem to prejudice that decision. Some Indian witnesses, indeed, urged the importance of retaining the Superior Services on an All-India basis in order to constitute a check upon the excessive development of the spirit of Provincialism. To this school of thought the maintenance of All-India Services seems to be one of the means of building up a valid sense of Indian nationality. It is not easy to accept this view, since, as has been remarked above, it has already proved difficult, if not impossible, to prevent recruitment from becoming more or less Provincialised within the framework of an All-Indian system. Still, even if this is an unavoidable necessity, it need constitute no reason for the

abandonment of the whole idea of an All-India Service. As at present, so in the future, Provincial Governments would still be able to appoint to their Provincial posts recruits domiciled in their own Provinces; and it might be recognised (as was suggested by at least one Local Government) that recruitment of Indians to the Indian Civil Service in future should be carried out, so to speak, in Provincial compartments.

- (e) The last argument against bisection is by no means the least important. One of the greatest services—perhaps the greatest—which Englishmen have done for India has been the training which they have given to Indian officials in the methods and morals of public service. Consciously or unconsciously, merely through being associated with Englishmen in the same administrative body, working side by side with them on a footing of complete equality, sharing equally in their pride in what the Service has done for India and in their hope of what it may yet do, many of them have acquired an *esprit de corps* and a sense of public duty the attainment of which by any other means must have been a long and difficult task. Equal comradeship with their Indian fellow-officers, on the other hand, has been one of the most effective means of giving to European members of the Services a better understanding of the Indian character and a livelier appreciation of Indian aspirations. Surely the continuance of this two-fold process is one of the things best calculated to promote the future welfare of the Indian Empire. The task of training Indians in public service, on the one hand, and of implanting in Englishmen a fuller knowledge of India, on the other hand, is, relatively speaking, only just beginning. To bisect the Services, to put Indians and Englishmen in separate compartments and, above all, to give the Englishmen an aloof and superior status, would mean the virtual abandonment of that task.

15. In the course of time the proportion of Englishmen needed for the public service of India will grow less; and it may be that the nature of the functions they will be required to perform therein will some day be radically changed. In the future, therefore, it may be necessary to reconsider the question of a separate organisation for English officials. But for the present and for years to come—as long, in fact, as Englishmen are employed as ordinary Civil Servants, still constituting a considerable proportion of the whole body, taking the same part as they do now in the administrative machine, and therefore doing the same work as Indian Civil Servants—it seems essential (if the above arguments are sound) that they should be grouped as they are now, side by side with Indians in undivided services.

(Signed)

R. COUPLAND.

Dated 30th April, 1924.

MINUTES BY PROFESSOR COUPLAND AND
SIR CYRIL JACKSON.

I.

THE STAFFS OF CHIEFS' COLLEGES.

1. It was understood that the recommendation in paragraph 15 of the Report, with regard to the gradual replacement of the Indian Educational Service by Provincial Services controlled by Local Governments, would not apply to the reserved part of the educational field. Thus the recommendation does not affect the question of the appointment and control of the educational officers required for the Chiefs' Colleges.

2. As regards the status of the staffs of the Chiefs' Colleges, the evidence tendered to the Commission seems to show that their position is markedly different from that of other members of the Indian Educational Service, and is somewhat anomalous.

(a) It is clear that, apart from the question of reservation, these staffs cannot be appointed and controlled on a provincial basis, since (1) their work lies mainly outside British India; (2) the boys at the Colleges are drawn either from territories wholly separate from British India, or from States within the areas of various Provinces and not of one only. For these and other reasons, political and financial, such an arrangement is evidently impracticable, and it has not, as far as we are aware, been suggested.

(b) But the maintenance of these staffs as members of the Indian Educational Service seems also unsatisfactory. In certain vital respects their work is quite different from that of other members of that Service. It has an important political side. It brings them into close relations with Indian States and their rulers, without which the training of *Kumars* cannot be properly carried out. Moreover, they do not serve under the Educational Department, but, in theory at least, under the Foreign and Political Department of the Government of India.

(c) If the present tendency to leave the financial support of the Colleges as far as possible to College funds continues, it seems desirable, with a view to the contentment and efficiency of the existing staffs and their proper recruitment, that they should be retained under official control, and this control, it is argued, could best be exercised through the department of the Government of India which is concerned with the Indian States.

3. In the light of these considerations we are of opinion that the recruitment and final control of the Staffs of the Chiefs' Colleges should remain as at present in the hands of the Secretary of State; but that the existing staffs and future recruits should be constituted an Educational Branch of the Foreign and Political Department of the Government of India. We would further suggest that, with regard to any consequential readjustments of pay, it should be borne in mind that the cadre of those staffs is small and that therefore these important and responsible posts are relatively less advantageous to their holders and less attractive to potential recruits.

II.

THE OPEN COMPETITIVE EXAMINATION.

1. To re-establish a full supply of first-rate British recruits for the Indian Civil Service is, in our opinion, of the very first importance. It is to be hoped that the recommendations of the Report will go far to meet this end. But other possible considerations, though they may be relatively points of detail, should not be ignored, considering the difficulties which have so seriously obstructed recruitment in the last few years. We desire, therefore, to draw attention to certain features of the Open Competitive Examination as at present organised and their bearing on what has hitherto been the most productive source of recruitment.

2. For many years past Oxford University has supplied the largest proportion of British recruits for the Indian Civil Service. The following table gives the number and source of the successful candidates from 1910 to 1914, and for each of the three years since the Open Competitive Examination was reintroduced after the war.

	1910.	1911.	1912.	1913.	1914.	1921.	1922.	1923.	Total
Oxford	36 ¹	28 ²	19	19	17 ³	1	5	3	128
Cambridge	17	11 ⁴	12 ⁵	12	18	2	—	2 ⁷	74
Other English Universities	1 ⁸	5	—	1	2	—	—	1	10
Scottish Universities	4	2	4	5	6	—	—	1	22
Irish Universities ..	—	3	5	4	3	—	1	—	16

¹ One previously at St. Andrew's and one at Auckland.

² One previously at London.

³ One previously at Cardiff.

⁴ One previously at Aberdeen.

⁵ One previously at T.C. Dublin.

⁶ One previously at London.

⁷ One previously at Edinburgh.

While recruitment needs stimulating at every source, clearly nothing should be done to check it at that particular source which has hitherto been most productive and consistent; and we regard it as unfortunate that something has already been done to that effect. Enquiries at Oxford have convinced us that the alterations made in 1919, and put in force in 1921, in the system of papers and marking for the Open Competitive Examination have already operated to deter some good Oxford men from competing, and will continue so to operate in the future.

3. A very large proportion of the best Oxford men, and of those who have in the past been recruited for the Indian Civil Service, have been trained in the classical school, i.e., they have taken Honour Moderations and the Final School of Literae Humaniores ("Greats"). Under the old regulations it was possible for such men to pass from their Final Schools in June to the Open Competitive Examination in August, with little intermediate "cramming," since the papers and marks were so arranged as to give full weight to the knowledge they had acquired in their Oxford course. But, under the new regulations they are handicapped in the following ways:—

- (a) The marks now assigned to Philosophical subjects are relatively much lower. This tells against candidates who have worked at "Greats," because Philosophy and Ancient (Greek and Roman) History are virtually the only subjects studied in that School, and those who take it devote at least half, and in many cases more than half, of their two and a half years' work to an intensive study of Philosophy.

- (b) As the regulations stand, a candidate who is proficient in Greek and Roman History, which are an integral part of "Greats," can only obtain credit for these subjects if he also takes the papers in Greek and Latin translation and composition, and has a general knowledge of Greek and Roman Literature. But if he is not a good pure scholar (and many of the best "Greats" men are not), he is in the position of being compelled to take papers in which he is weak—a handicap of a kind to which no other candidates are subject. There can be no disadvantage to candidates from other Universities in making it possible to take the history papers without the language papers and *vice versa*, and the combination of the literature questions with the language papers rather than with the history papers would probably be equally unobjectionable to them. Conversely the scholar whose interest has been more in language and literature than in history is handicapped at present by being obliged to offer history as a condition of showing his knowledge of literature.
- (c) The institution of General Papers, for all candidates, dealing mainly with contemporary and scientific subjects, is doubtless an improvement in the examination, but the title "Science" which is given to one of these has proved a deterrent to some Oxford men. In fact, the questions set have not been, and probably are not likely to be, over-technical; and the word "Science" is given a wide interpretation by the examiners. But it must be remembered that the effects of the reformed curricula which are gradually being adopted in Public Schools can only make themselves felt very slowly, that the present generation of University men is practically untouched by them, and that they have not been able to combine any study of Science with their regular work at Oxford. It would be desirable, in our opinion, not to abandon scientific questions as part of the General Papers, but at any rate for the next few years, to set two General Papers, including the subjects of the present Science paper, but not making the Science questions compulsory as at present. In a few years probably the effects of the wider teaching of Science will be such as to justify the setting once more of papers on the lines of the present regulations, but there can be no question that at present the Science paper is a deterrent to good men.

4. In the light of these considerations we strongly recommend that all possible steps should be taken to readjust the regulations—if only temporarily and in view of the present difficulties with regard to recruitment—so as to free the classical candidates from Oxford from the newly imposed handicaps and to restore to them the same kind of scope in the examination as they used to have. If the recommendation in the Report as to the ratio of recruitment for the Indian Civil Service is adopted, the number of British recruits required from year to year will not be large. But it is *essential* that *all* the vacancies should be filled; and it is more than ever necessary that those who fill them should be of first-rate quality. Under these circumstances we do not believe that other Universities would object to the restoration of the conditions of examination which obtained before 1919. In so far as their own classical candidates have been exposed to the same handicaps as the Oxford "Greats" men, they will equally profit by their removal.

(Signed)

R. COUPLAND.
CYRIL JACKSON.

Dated 30th April,
1924.

MINUTE BY SIR REGINALD CRADDOCK UPON CERTAIN OF THE CONCLUSIONS OF THE COMMISSION.

After a term of service in India approaching 40 years (if my service as a Member of the Commission is included)—1884 to 1924—of which period over 15 years were spent in high office, it is perhaps permissible for me to place on record the reasons which have led me to agree in the recommendations contained in the Report. In a great many cases I have, of course, nothing to add to what is therein stated, but in the matter of Indianisation, the future provincialisation of certain departments now manned by members of the All-India Services, the future civil medical administration of India, the special conditions of Burma, and generally upon the remuneration of and concessions to members of the various Services, I desire to offer some supplementary observations based both on the evidence that I have heard as a Member of the Commission and upon my own experience of Indian Administrative problems.

(I) INDIANISATION.

1. The case for Indianisation of the superior Civil Services is pressed mainly by the classes who take an interest in politics, have developed a national pride, and supply the educated material that finds employment in these Services. This class of opinion presses for the rapid replacement of British officers by Indian, and answers the doubts of more conservative minds by pointing out that it will be many years before the present generation of British officers will serve out its time and disappear. On the other side, are representatives of the depressed or untouchable castes, of cultivating classes, of artizans, of Mohammedan sentiment and of other minorities, who fear that with the rapid disappearance of British personnel in the Indian Civil Service and Police, and even in the Education and Medical Departments, their own interests will be neglected by the upper classes, who, with the waning of British influence, will regain their old ascendancy and may use it to the prejudice of the ignorant masses. It is true that the best elements of Indian political thought genuinely regret the continuance of these old-time prejudices, and would like to see all these social bans removed; but the poor feel that the traditions of centuries are not likely to be broken if the British example, which has done so much towards making the first breach in them, should be too rapidly withdrawn. It is with both these opposite points of view in mind that I have concurred in the recommendations of the Report regarding the various Services, which strike a just mean between the impatience of the politician and the conservatism and genuine anxiety of large communities who regard their security as bound up with the continuance of British inspiration in the government of the country.

2. The rates of Indianisation proposed for the two security Services, the Indian Civil Service and the Indian Police, may seem at first sight to involve too rapid a transformation of the composition of these two most important Services, upon whose ability, integrity and impartiality the peaceful progress of the whole country and the stability of the Government, whatever form it may ultimately assume, must depend; for if once the magistracy, the revenue administrators and the Police force should become inefficient, the whole fabric of the State collapses, and the constitutional reforms themselves would be placed in jeopardy. It is otherwise with the Services which demand professional or technical skill. Efficiency in them is most desirable, but not absolutely vital. The difference between these Services and those has been taken into account in past policy, and the same distinctions must clearly be observed in the policy for the future.

Indian Civil Service.

3. No one will deny that the progress made towards greater association with Indians in the Indian Civil Service had before the war been exceedingly, and, to Indian aspirations, most disappointingly slow. The attempt made more than 40 years ago to provide a nominated and non-competitive element in the Indian Civil Service under the designation of Statutory Civilians had been abandoned after a short trial, and was superseded on the recommendations of the Commission of 1887 by a system of setting apart some superior posts to be known as "listed posts," to which senior members of the several Provincial Civil Services might aspire. The objective aimed at was to set apart one-sixth of the posts, judicial and executive, to be filled by promotion from the Provincial Civil Services; but the immediate transfer of such posts was impracticable without injury to the vested interests of the members of the Indian Civil Service, who had been recruited to fill all superior posts, including those to be transferred. The transfer had therefore necessarily to be a gradual one, but inasmuch as more than 35 years have elapsed, and the transfer is not yet completed, it would certainly seem that all Local Governments have not been bearing the matter sufficiently in mind, and that opportunities of transfer have been lost; for if with immediate effect the recruitment for the Indian Civil Service had been reduced by one-sixth, then the transfer could have been completed as soon as every Indian Civil Service officer of the year preceding the reduction had been provided with a superior post, and the process would have taken not more than 15 years at most. Transfers also can be effected whenever a new superior post is created. The reasons for this slowness in effecting the transfer of the full number of listed posts in favour of the Provincial Civil Service were, first, that Local Governments hesitated about entrusting such important charges to members of the Provincial Civil Service as then constituted; secondly, that recruitment to the Indian Civil Service was based not upon five-sixths of the superior posts, but upon the total superior posts at any moment in existence less only those that had actually been transferred and listed. Consequently, for the posts still awaiting transfer, fresh vested interests were coming into existence each year, thereby further retarding the transfer. At the time of our inquiry, in all the Provinces taken together, out of a total of 700 superior posts only 88 had been listed instead of 116, though a few additional transfers have been prepared for by the creation of inferior listed posts, mainly judicial, incumbents of which will receive their promotion in due course.

4. This slowness of transfer has naturally excited criticism in Indian political circles and justifiable disappointment among the members of the various Provincial Civil Services. The Islington Commission preferred an acceleration of Indianisation in the Indian Civil Service proper and the handing over of 40 superior judicial appointments for direct recruitment from the Bar, a proposal which has excited some resentment among the members of the Provincial Judicial Services. Indeed, the Islington Commission proposed that the number of listed posts should be reduced rather than increased. The evidence before our Commission, which I can confirm from my own knowledge and long experience of the officers of the Provincial Civil Service, is convincing that no such reduction should be effected. It would be unfair to the Provincial Civil Services and inexpedient in the interests of the country. Not a few authorities who have given evidence before us even consider that the Provincial Services can produce men in no way inferior to members of the Indian Civil Service. Our proposals therefore in this respect go in the contrary direction to that taken by the Islington Commission, and we have recommended that 20 per cent. of the total superior posts should be listed for the benefit of the Provincial Civil Services. In other words, these will rise from 88 to 140.

5. I should like to add that it is doubtful whether so many as 40 out of these posts should be held permanently at the disposal of members of

the Bar. This may be a useful temporary expedient in Provinces such as Burma, in which the local judicial branch of the Provincial Civil Service has only recently been reorganised; but wherever these Services are of long standing there is no guarantee at all that direct appointments to the post of District and Sessions Judge from the Bar will provide candidates who are in any way superior to those obtainable from the ranks of the subordinate judiciary. It must not be forgotten that the Provincial Judicial Services themselves are largely recruited from young members of the Bar who are not over 30 years of age, and it is well known that some of the best Judges in the Provincial Judicial Services were thus recruited. The pick of the senior Bar is not likely to look at the emoluments of a District and Sessions Judge; for, the acceptance of such appointments by members of the Bar would, if they were able men, actually reduce their prospects of elevation to the High Court. If the best members of the Bar are not available for appointment to District and Sessions Judgeships, it would be a serious injustice to the most deserving judicial officers if they were to be passed over for the sake of men of mediocre talents whose promotion, owing to their younger age, would also cause a permanent block in promotion.

6. We have not in our Report made any suggestions as to the manner in which these additional listed posts should be filled by members of the Provincial Civil Services. The question is really one for Local Governments to consider. The vested interests of existing members of the Indian Civil Service cannot be disregarded, but it would be possible for the Local Government to transfer the most promising young men of the Provincial Civil Service to the status of Assistant Collectors or Assistant Commissioners, placing them below the Indian Civil Service recruits of the year of transfer. It would, however, be inexpedient to lay down any hard and fast rule of this kind, since so much must depend on the relative efficiency of the higher and lower ranks of the Provincial Civil Service. The expectations of the senior men of the Provincial Services must not be neglected. In any case, as recruitment by the method of competitive examination would be made only for 80 per cent. of the superior posts, there would be no risk of the interests of the Provincial Services being overlooked, as was the case in the past.

7. I pass now to the Indian Civil Service proper, as distinct from the listed posts to be filled by promotion. Up to the war, the number of Indians who entered the Indian Civil Service through the open competition in London averaged $3\frac{1}{2}$ a year out of an average number of about 53 vacancies, or under 7 per cent. The war completely disturbed all previous recruiting arrangements, and when, under the Montagu-Chelmsford scheme, the ratio of Indian recruitment was fixed at 33 per cent. rising by $1\frac{1}{2}$ per cent. a year to 48 per cent.—this arrangement to have effect from the year 1920—there were large arrears to be made up, and the numbers recruited each year have been in no settled ratio, as the following figures will show:—

Year.	British.	Indians.	Total.
1915	11	3	14
1916	4	5	9
1917	2	4	6
1918	Nil	9	9
1919	62	39	101
1920	44	6	50
Total for six years ending 1920	123	66	189

Since that date the relative figures have been as follows :—

Year.	British.	Indians.	Total.
1921	30	25	55
1922	9	24	33
1923	21	15	36
Total for last three years ..	60	64	124

Thus, over a period of nine years, which should on normal recruitment have added about 477 recruits to the Service, the actual total additions have only been 313, of whom 130, or nearly 42 per cent., have been Indians. From 1920 onwards to 1923 there should have been 212 recruits. There have only been 174, of whom 70 have been Indians, or 40 per cent. On the normal vacancies the Indians recruited amount to 33 per cent., and the British to 49 per cent., leaving some 18 per cent. unfilled, the deficiency being entirely in the British quota. The war and post-war recruitments, albeit due to circumstances which were unavoidable, have produced so unequal a distribution by years between the two races as is likely to prove embarrassing when the recruits of these years are due for promotion to superior posts; and it is of the utmost importance, therefore, that for the future fixed ratios should be preserved, so that the Service should not be in strata of race constitution, but rather that British and Indians should advance in the Service *pari passu* in fixed and definite ratios. It is on this account that I have accepted the proposed ratio of annual recruitment of 40 British to 40 Indians plus 20 promotions from the Provincial Civil Service to every 100 vacancies, the same to continue until the constitution of the whole Service is half and half, including listed posts. This proportion should be reached by 1939, and if these recruitment ratios have been maintained regularly there should not, by that time, in the ordinary course of events be any reason why these ratios should not be continued; but it is quite impossible to forecast the conditions that may prevail 15 years hence. It is impossible for anyone to say definitely that such and such a ratio fulfils certain definite tests, but in agreeing to these conclusions I have agreed to the largest measure of Indianisation which, while appearing to me to meet all reasonable claims of Indians, will ensure that the British element in the Services shall not be too rapidly diminished. Under the existing system, the Indian ratio would be 39 per cent. for 1924, and 40½ per cent. for 1925, including listed posts; but our recommendations raise the Indian fraction of recruitment to 60 per cent. again including listed posts, though it will be many years before the British element in the whole Service falls to that ratio of recruitment. Time will disclose the quality of the material available in London and Allahabad under new conditions and under new tests. By the time that the Statutory Commission of 1939 comes to make its Report, the Indians already in the Service, and those recruited between the years 1915 and 1920, will have completed 20 years' service, while those recruited during the next few years will at least have attained to superior posts, so that there will be ample material before that Commission to enable it to form a judgment as to the future ratios of recruitment. In considering the margin of safety under present conditions, I have visualised the position that 20 per cent. of the superior charges will be such as may safely be entrusted to the best material available from the Provincial Civil Service. Of the remaining charges, presumably those of a more responsible character, the future recruitment will be half British and half Indian.

Indian Police Service.

8. In the case of the Indian Police, the proposals of the Report are designedly more cautious than in the case of the Indian Civil Service. For one thing, the proportion of Indians already serving in the Indian Police Service is much smaller than in the Indian Civil Service; for another, while in the Indian Civil Service there are many posts not directly concerned with law and order, in the case of the Police there is scarcely a single post of which the incumbent is not directly dealing with the maintenance of public order and the detection of crime; and for a third, it is not a Service which has hitherto attracted that precise type of Indian recruit which is likely to be most successful for work of this kind. Nevertheless, so much depends upon the continued efficiency of the Police Force over the whole of India that greater caution is essential, and, indeed, the evidence shows that even advanced political opinion is averse from as rapid an Indianisation of the Police as it recommends in the case of other Services, not excluding the Indian Civil Service. Recent events have shown that communal differences have increased rather than diminished in bitterness since the advent of the Reforms, and that, without any reflection upon the courage and integrity of Indian Police officers (and they have shown abundance of it) the British officer's natural aloofness from these communal disputes is a source of confidence to all contending communities alike that in conflicts which may arise between them racial and religious prejudice will not be a factor when action has to be taken against offenders. I can, from my own experience, testify that however justly and impartially an Indian Police officer has acted in such cases his action is apt to be attributed to partiality with one of the contending sides, when a British Police officer, taking precisely similar action, would be exempt from any such imputation upon his good faith. In agreeing to the recommendation of the Report that half the future recruits shall be British, I have taken account of the fact that with the existing preponderance of the British element in the Police it will be some 25 years before the actual composition of the Indian Police Service corresponds to the half-and-half recruitment ratio which the Commission have recommended. The poor success that has been attained by direct recruitment to the Indian Police Service up to the present, and the reported greater efficiency of the officers promoted from the rank of Deputy Superintendents in the Provincial Police Services—an experience common to all Provinces—has led to the proposal to provide one-half of the recruitment of the Indian element by promotion, this proportion being even increased if the anticipated improvement in the quality of Indians directly recruited does not materialise. The proposals connot that if a quarter of the District Charges are entrusted to promoted Deputy Superintendents who have stood the test of experience, for the remaining charges recruitment shall be in the ratio of two Englishmen to one Indian, thus making them equal when all charges are taken into consideration.

9. As regards direct recruitment, the material required is much more akin to that desired for Indian officers for the Indian Army than to the more studious element attracted to the Indian Civil Service and to the professional and technical Services; but the experiment of direct recruitment is of such recent introduction that it is not yet possible to come to any clear conclusion on the subject. In agreeing to the recommendation that the proportion of British to Indian recruitment should be reduced from two-thirds at present to one-half in future, I am fortified not only by the evidence of a good many reliable authorities, but by the concurrence in this proposal of my colleague, Mr. Petrie, a distinguished Police officer of over 20 years' standing, whose experience has been a wide one, and who has also special knowledge of the conditions of the Punjab, a Province in which caution in the matter of Indianisation is clearly as desirable as in any other part of India.

(II) PROVINCIALISATION OF DEPARTMENTS NOW ADMINISTERED BY THE ALL-INDIA SERVICES.

10. The Services that are affected by the recommendations that we have made are those working in the transferred field of government, namely, the Public Works (Buildings and Roads)—except in Assam—the Indian Forest Service in the two Provinces of Bombay and Burma, the Indian Educational Service, the Indian Agricultural Service, and the Indian Veterinary Service. I leave out for the moment the Indian Medical Service, which requires special and separate treatment. I do not think that at the time when the Montagu-Chelmsford Reforms were instituted it was fully realised that recruitment for these Services on the present system and on an All-India basis might come to so abrupt a termination as our proposals involve. I have agreed to these proposals myself with great regret. It must, however, be explained with considerable stress that the members of all these All-India Services are not themselves being in any sense provincialised. If our recommendations are accepted, it would simply mean that all future recruiting for these Services will come to an end, but all the existing members retain their full rights and privileges as members of an All-India Service, and they will from that fact be entitled to any concessions which upon our recommendations or at any future time may be sanctioned for the benefit of the All-India Services generally. The step recommended is regarded by a large number of authorities in India, including several Local Governments, as the inevitable concomitant of the constitutional changes by which certain Departments have been transferred to the control of Ministers responsible to local legislatures. For the future, the terms on which new members will be recruited, the proportion of British recruits, if any, required, and the method by which they will be obtained, will be matters for each Local Government to settle for itself subject only to the reservation that the Public Service Commission to be established under Section 96 C of the Government of India Act, 1919, will lay down the standard for admission to the newly provincialised Services. This is a very important reservation, and along with it must be considered our proposal that Provincial legislatures should forthwith pass Acts for the regulation of their Public Services, so as to remove all these Services from undesirable political pressure or transient political bias. Several of those who have given evidence before us believe that the hostility from time to time shown by the new legislatures is entirely occasioned by the fact that members of the All-India Services are imposed on them from outside, and that fresh recruitment for those Services will indefinitely prolong these vested interests; but that, once control passes from the Secretary of State to the Government of India or to the Local Government in the transferred field as the case may be, all bias and animus will disappear. Time alone can show whether these anticipations are over sanguine or not. In the meantime, so far as Indianisation is concerned, it will be left entirely to each Local Government to decide whether the existing Provincial Services as now constituted will suffice for their requirements, or whether higher-paid officers, equal in status to those entering the All-India Services now, are still wanted, and, if so, what British element, if any, should still be recruited, and how it will be obtained.

11. If special covenants between the recruit and the Local Government are found sufficient to attract and retain such British engineers, British forest officers, agricultural experts, educationalists and veterinary surgeons of the same standard as are now found in the present Services, and to the number that the Local Government may require, there is distinct advantage in an arrangement of this nature. But if British officers of the required standard are not forthcoming on these terms, it will then be necessary for a Local Government to decide whether it will do without British officers altogether, or else approach the Secretary of State to recruit them on the same conditions as officers of the All-India Services are now recruited, and

under the same security of tenure. If this should occur, then such officers will not have been imposed on the Ministers concerned, but will have been obtained by their own choice, and no prejudice against them could reasonably be felt. This is the logical outcome of the Reforms and of the transfer of these Departments to the administration of Ministers responsible to Local Legislatures. Nevertheless, no one who has served with and over these Services, as I have been privileged to do, can contemplate without profound regret their virtual disappearance as live and growing organisations which have conferred and would, if they were to survive, continue to confer inestimable benefits on the people of the country.

12. In the case of the Department of Public Works the Irrigation Branch of the Indian Service of Engineers, which has made for itself world-wide fame, has still a lease of life left it, but the Buildings and Roads Branch must slowly disappear as an All-India Service, partly because a great deal of the work which it has discharged is destined to devolve on local agency, and partly because with such excellent engineering colleges as exist in India there will be no lack of qualified Indian candidates to construct and maintain such works as still remain in provincial charge; but it will be many years yet before this great All-India Service, with its high traditions, will disappear. There are but few parts of India in which an efficient local engineering agency in the service of local bodies has yet been created, and I trust that such alleviations as the Commission have been able to suggest will induce all existing members of the Service to serve out their full time and impart their high standards of skill, duty and integrity to those who come after them.

13. The great sister Service, the Forests, is still, except in Bombay and Burma, controlled by the reserved side of government, and although we propose a higher ratio of Indianisation than has hitherto been adopted, the realisation of this ratio must depend upon the readiness of Indians to qualify themselves for a Service which has hitherto not made any serious appeal either to the Indian student or to the Indian parent. The projected improvements in the Forest College at Dehra Dun may invoke a greater enthusiasm among Indians for a forest life than has yet been manifested. If so, well and good; but it is to be hoped that no Government in India, whether it be of Members or of Ministers, will allow itself to underrate the enormous importance of the forest estate in India both to Indian agriculture and to Indian commerce. I have been closely associated with the two Provinces in India in which reserved forests cover the largest areas. The labours of past generations of Forests officers have not been in vain, but the fruits of these labours are still not fully to hand. Organised research is still very much in its youth, and it would be a lamentable event if forests ever came to be regarded as a department in which inefficiency was of little consequence. The Provincial Forest Services have produced some excellent Forest officers, many of them, it must be said, Anglo-Indians, and it is not lack of ability but lack of inclination for the isolation and exposure of a forest life that is most likely to militate against the more rapid Indianisation of this great Service.

14. The Indian Educational Service as an All-India Service, apart from isolated appointments, has had a shorter life than the Indian Service of Engineers or the Indian Forest Service, but British recruitment, except in the case of Burma, has almost brought itself to a close for lack of candidates in later years, and most of the Provincial Directors of Public Instruction in India reluctantly agreed that its continued maintenance as an All-India Service is no longer possible. There is no lack of competent Indian graduates to fill the educational posts in the public service. If British principals or professors are still wanted in the universities and colleges, it will be possible for them to be obtained on such special terms as will attract men of the required qualifications. On the administrative side there will be for some years to come members of the Indian Educational

Service, British and Indian, to fill the posts, after which events will show whether a British element in educational work can be dispensed with, or is proved to be still necessary. The Indian Educational Service has produced many distinguished men, and has played a very valuable part in the educational development of India. There are many Indians who look back with respect and affection to British principals of colleges and British headmasters of schools under whose hands they received their own education. It is indeed a matter for anxiety whether, when everything turns upon the successful education of young India in self-government on Western lines, it is the right time to cut off the supply of Englishmen, bringing with them the spirit of the West; but education having been handed over to the control of Ministers, they must be left to find out for themselves whether they need British educational officers or not, and if they do, how best to obtain men of the requisite character and qualifications; but it is not a department of state in which British officers are likely to be successful if it is felt that they have been imported against the wishes of those who are most interested in education.

15. The Indian Agricultural Service only came into existence in 1906, and in the 18 years that have followed it has achieved results of which it may well be proud. To one who, like myself, has had responsibility for the agriculture of a Province before those days, and afterwards took a prominent part in fostering the working of the new Service and in expanding the personnel, the cessation of all British recruitment is specially regrettable; but one cannot resist the logic of events. The importance of the work that these pioneers of scientific agriculture have done to increase the agricultural prosperity of the country cannot be over estimated, and it can only be hoped that the present officers of this Service will not take their hands from the plough before it can be seen whether Indian successors of the requisite qualifications, initiative and vigour are forthcoming to replace them. It is a Service which ought to and could be carried on by Indian agency, but hitherto it has not been a very popular one with Indians; and men are wanted, not merely those who seek a livelihood after having failed to obtain it in other branches, but men who are really inspired with professional zeal and enthusiasm for playing their part in improving the lot of agriculturists in a country in which many millions of men depend entirely upon successful agriculture for their well-being and happiness. There are many vacancies in this department which are unfilled, and which will now be provincialised if our proposals are accepted.

16. The Indian Veterinary Service as an All-India Service is also a very recent organisation. It is a department in which the subordinate agency has been forthcoming in abundance. An improved veterinary education has been able to provide a few officers for Provincial Veterinary Services, but up to the present only three Indians have qualified themselves for higher veterinary work by obtaining the diploma of M.R.C.V.S. The department requires men not only of sufficient ability to pass the necessary examination, but those possessing fondness for animals, facility for handling them, and familiarity with rural life, which in Europe draws men to this profession. In this department also the Indianisation of the higher posts must be limited by the number of qualified Indians available. If the effort now being made in this direction proves successful, there is no reason why Local Governments should have any difficulty in finding suitable candidates from among Indians possessing European qualifications, but the experiment of educating Indians for this profession up to the standard which prevails in Great Britain is a very recent one, and it remains to be seen whether the Service will prove attractive to the men who are likely to prove successful. Unlike the medical profession, the scope for private practice has hitherto been very limited, and the artificial stimulus of scholarships has been necessary to induce Indians to qualify themselves for the higher ranks of the veterinary profession.

17. If all these departments are for the future provincialised, as is our recommendation, the Government of India will still require to recruit men for posts directly under the Central Government. The very fact that all recruitment for these All-India Services in the Provinces will cease is an additional reason for the Government of India to insist upon high standards for the men directly serving under itself. It will be responsible for the work of these departments in all minor administrations, and it will be specially charged with the maintenance of central research. Institutions like Pusa, Dehra Dun and Muktesar, and so on, must be maintained, and it would certainly be expedient for the Government of India, with the provincialisation of the Veterinary Department, once more to appoint a Veterinary Adviser to advise both itself and, if need be, Local Governments in matters of cattle disease which may be of national or even international importance. There is scientific work to be done which knows no provincial boundaries, and it will be necessary for the Government of India to provide itself, especially in such departments as Agriculture and Veterinary, with a few officers recruited under All-India Service conditions whose services can be lent occasionally to particular Provinces at particular times and for particular purposes. Hitherto it has been able to draw on Provinces for its own requirements, or occasionally for Indian States. In future, with Services variously recruited in the different Provinces, this source of supply may not always be open. The Provinces of India have not yet become separate States, and, even were they to be so constituted in future, the Central Government could not be entirely unconcerned with matters of such vital importance to the country as a whole as the progress of agricultural or veterinary science. Animal transport has not yet been entirely superseded for military purposes. The staple crops of the various Provinces are not of purely local importance. The Burma rice crop, the Punjab wheat, and the Bombay and Berar cotton, affect the whole of India. The hide trade is not confined to any single Province, and foreign restrictions against India with regard to the export of hides would have very serious results.

18. In the case of education there is not, of course, the same necessity for a central institution. The Chiefs' Colleges have to be manned, and for a long time to come British members on the teaching staff will be required. Except in Burma, European and Anglo-Indian education is under the reserved side of government, but the disposition of the legislatures towards it may at some time compel the Central Government to take it over. Europeans contribute very largely in proportion to their numbers to income tax and customs, namely, to central revenues, and there would be a certain fitness if European education became the special charge of the Government of India.

19. Bearing all these considerations in mind, I have come to the conclusion with the rest of my colleagues that the carrying out of the work of these departments operating in the transferred field in the Provinces must be left to Provincial Governments, and that Ministers can no longer be compelled to indent upon the Secretary of State for the continuance of these Services on an All-India basis. The Central Government will likewise be free to recruit officers for its own requirements and at its own pleasure, if it so decides through the Public Service Commission in India, or if it prefers through the Secretary of State in England. In fact, it will in the case of all such officers exercise the same discretion as we have recommended for its own Central Services, excepting only those *quasi* security Services, the Railways, the Telegraph Engineers, the Customs, and Political, which we have recommended to continue under the control of the Secretary of State. These last are the Central Services upon which the military security and the commercial credit of the country depend. In the case of the Political Department, the foreign relations of the country, both with the interior Indian States and the neighbouring Asiatic powers and independent tribal organisations, require the services of officers drawn either

from the Indian Civil Service or the Army, and no separate recruiting arrangements are necessary. In respect of all the Scientific Services, it will, under our proposals, rest entirely with the Government of India to decide from time to time the source of recruitment and the extent of Indianisation.

(III) MEDICAL ADMINISTRATION.

20. This is one of the most difficult problems with which the Commission have had to deal. There has been a very strong feeling expressed in many quarters that an Indian Civil Medical Service should be created, and that the anomaly of a Military Medical Service responsible also for the civil medical administration of the country should be brought to an end. Various solutions have been proposed by various responsible authorities, military and civil, but every scheme that has been put forward in the past by the one or the other has been criticised as failing to meet the needs of the country either military or civil as the case may be. The demand for Indianisation, by some said to be too slow and by others too fast, has introduced a third factor into the controversy, and a fourth is the desire for recognition and promotion by medical officers of the Provincial Medical Services, the class generally known as Civil Assistant Surgeons, who have enjoyed the best medical education that India can offer, while some of its members have added to their qualifications by study in Great Britain and the acquisition of British medical degrees. A fifth factor is the cry of the Indian medical profession that they are shut out of all share in the plums of the profession in their own country by the members, British and Indian alike, of the Indian Medical Service. A sixth and very important factor is the claim of Englishmen in the Services, a demand that has the support of the non-official European community, that men of British race serving in India are entitled to the services of doctors of their own race, more especially for the treatment of their wives and families. Seventhly and lastly, the settlement of these controversies has been complicated by the fact that civil medical administration, including public health, has been placed in the transferred field, and that the constitution of the medical services in the Provinces is therefore a matter that should be decided by Ministers in accordance with the wishes of the local legislatures. All the controversy and delay in decision which these conflicting interests and claims have brought about has further been aggravated by the fact that they have coincided in time with a period in which, as a consequence of the war, there was a serious shortage in the out-turn of trained medical men from the British medical schools, while the out-turn of the products of medical colleges in India has not been similarly curtailed. The solution of these problems, which we have suggested as set out in paragraph 23 of the Report, represents, I think, an attempt to give to all these claims such proportionate weight as each seems to deserve consistently with none of them being neglected.

21. Speaking for myself personally, the problem is one with which I have been familiar for many years past, both in theory and in practical experience, and from the point of view of that experience I can only agree with my colleagues in the tribute that has been paid in the body of the Report to the great Services that have been rendered to India by the Indian Medical Service, and I can only express my own personal regret that, if our recommendations are accepted, there will be no successors under that honourable designation to carry on their great work; but if their lineal successors are found in the Royal Army Medical Corps (India) which we seek to create, the change would be one of name only and not of traditions, for that portion of the personnel at least should be of the same quality and high standard that has ever distinguished the officers of the Indian Medical Service. There has appeared to me to be no choice, for events have shown clearly that there is no longer any room in India for two

military medical services competing with one another for the best medical talent. The present Royal Army Medical Corps suffers from the lack of scope and variety which civil medical work offers, while the prospects of work in the Indian Medical Service have been painted in such dark colours in recent years in England that the best medical talent has feared to commit itself to a wholly Indian career. The officer entering the Royal Army Medical Corps (India) will not be so committed until he has had an opportunity of personal contact with the country, and the manner of life and attractions which it offers, and even then, if he offers himself for civil employment, he will not be finally committed for a period of years; but it would not be practical politics to attempt to create a civil medical service in India without any regard at all to the requirements of the Army.

22. It has been the fashion since the great war to assert that the reserve value of the Indian Medical Service has been found wanting. No regular paid reserve could ever be contemplated in peace-time in any country that sufficed for the needs of a world-wide war. What is required in India is a reserve sufficient to meet the medical contingencies of such frontier campaigns or small overseas expeditions as the relations of India with her neighbours may from time to time, in the light of past experience, render possible. Consequently, if the prudent reserve necessary to provide against these contingencies is to be maintained, it cannot be as a surplus medical staff swelling the Army estimates and kicking its heels in idleness, but must be employed rendering service to the country and improving its own practice and experience in civil employment. The strength of that reserve will, in the first place, determine the number of Royal Army Medical Corps (India) officers in civil employ. This number has to be contrasted with the necessary British element that has to be provided in civil medical administration; and the strength of this British element has to be computed by the Secretary of State in consultation with the Government of India and Local Governments. The directions in the matter that he has already given will stand or be modified according to the results of the application to the various Provinces of the principles which we have suggested. In so far as the Royal Army Medical Corps (India) provides officers to form the essential British element, that proportion is secure. For any balance the Government of India and the Local Governments will have to look to the suggested new civil medical service. If suitable British medical officers are forthcoming in sufficient numbers in that Service to provide that balance on standards pronounced to be adequate by the highest authority, then the problem is settled; but if not, the Royal Army Medical Corps (India) will either be asked to increase its reserve to make up the deficiency, or the Secretary of State will have to make it good by special recruitment and on terms which will ensure the supply. The minimum British element for the civil medical requirements of India having been provided in one or other of these ways, the remaining officers of the Civil Medical Service will consist of those successful in the examinations to be held in England and in India, the number of vacancies being determined by the Local Governments concerned, who, subject to the reservations outlined above, will control their Civil Medical Services and are at liberty to allot such posts as they think proper to officers of the Civil Assistant Surgeon class.

23. The scheme is thus calculated to meet the various demands that have been made, but its chances of success depend, so far as the British element is concerned, entirely upon the attractions of Indian Service for young British medical men. With the many safeguards that will exist for the security of career once the supply of medical men in England is again normal, service in India should regain its old attractions as affording scope to the specialist and the research worker, British or Indian. The reservations made doubtless invade to some extent the liberty of the transferred field, but these reservations are limited to what is strictly

necessary. Medical service in India is peculiarly Western, and requires for its maintenance continuous touch with Great Britain, for, while there are no special Indian systems of engineering, forestry or scientific agriculture, there are very ancient systems of medicine which attract large numbers of adherents and practitioners, and, in the sphere of medicine as distinct from surgery, compete with Western medical science.

24. I would wish to add some observations regarding the Indian Medical Department. I have seen a great deal of the work done by officers of this Department, and I can only express the hope that this valuable supply will not be neglected by Local Governments. This Department affords a very useful avenue of employment for the domiciled community, and has supplied in the past many capable District Medical Officers who, to my own knowledge, have won the confidence of all classes of the community and all races.

25. As regards the complaints of the private medical practitioner, there is plenty of room for all; but in a country like India it would be quite impossible to abandon the public medical services and depend upon private practitioners for carrying on district medical charges, superintending jails, and taking charge of hospitals maintained wholly or mainly from public funds. Men of this class will be able to quote British precedents with more justice when large hospitals and medical schools and colleges have been organised by themselves and they have been able to enlist the benefactions of the rich among their fellow countrymen for the support of such institutions supplementary to Government efforts. Only very small beginnings have been made in that direction in India, and even these lean largely upon Government grants. In the meantime the door is not shut against eminent Indian medical men outside Government service, who may be appointed as honorary surgeons or physicians in large hospitals, and will be eligible amongst others for appointment to scientific chairs in medical colleges.

26. The remaining questions on which I have ventured to record notes supplementary to the Report are the special circumstances of Burma and a scheme for the emoluments of the Services. These notes are contained in separate appendices.

(Signed)

REGINALD CRADDOCK.

Dated 30th April,
1924.

MINUTE BY SIR REGINALD CRADDOCK ON THE
APPLICATION OF THE ROYAL COMMISSION'S
PROPOSALS TO BURMA.

The short time at its disposal rendered it impossible for the Royal Commission to visit Burma, and although some official and non-official witnesses from Burma were heard in Calcutta, yet it was inevitable that the same local touch could not be established as was the case in Provinces in which the Commission were able to spend several days, and thus to absorb local colour and sentiment as distinct from the more formal evidence given by witnesses.

As I am the only Member of the Commission who, as the result of my five years' office as Lieutenant-Governor of Burma (which terminated less than one and a half years ago), am acquainted with Burma, I have thought it proper to supplement the observations contained in the Report with my own personal knowledge of the Province and its people.

2. I concur entirely in the general conclusion of the Report that, so far as the application of principles is concerned, there is no case for differentiating Burma from India. We may, and should, aim at the same results and the same processes. No other conclusion would be acceptable to articulate Burmese opinion. There is an intense national pride in Burma, and a recommendation which carried with it even a suggestion that an educated Burman would not hold his own with an educated Indian would provoke hostile feelings not entirely confined to political circles. It was the same with the Constitutional Reforms. The Burmese would not rest content with any scheme which, in their view, fell short of the scheme granted to India, and that not so much because of the intrinsic merits or demerits of this scheme or that one, but because anything less than that granted to Indian Provinces suggested that the Burmese were less fitted than the Indians for political progress. They can point to many characteristics and circumstances which make Burma as a country more favourable soil for the growth of democratic institutions than a huge subcontinent like India with its 306,000,000 of people and divers races and creeds. Indeed, there is not in India any race or creed possessing anything like the predominance over other races and creeds that in Burma is enjoyed by the Burmese professing the Buddhist faith. While the Burmese resent any comparison with India that suggests inferiority, they themselves are the first to dwell upon difference of character, mentality and genius which distinguish them from the representatives of the Indian races with whom they have come into contact in Burma. The absence of all caste and of a landed aristocracy also tells in favour of democratic institutions in Burma.

It is not necessary to balance the differences in character which mark the people of Burma as quite distinct from the Indian races; but, on the other hand, while on a quality basis the same principles and processes are applicable the quantity test must of necessity vary. All the proposals of the Report in connection with the Indianisation of the Services are entirely dependent upon a sufficient supply of qualified Indians being available, and the same limitation must accompany the application to Burma of the reorganisation of the Services there.

3. It is in this latter respect that Burma presents some special features. Secondary and University education have been, as compared with the rest of India, in so backward a state that the number of graduates in Burma has, until quite recently, been very small. Until 1920, when the Rangoon University was created, the two colleges in Rangoon were the only colleges in Burma and were affiliated to the

Calcutta University, and those few Burmans who sought education outside Burma almost invariably preferred to go to England to British Universities in preference to enrolling themselves in Indian colleges. Indeed, the number of Burman graduates of the Calcutta University up to the year 1920 only totalled some 400 from the date of the establishment of colleges in Burma. With the creation of their own University the prospects of higher education in Burma have much brightened, and simultaneously efforts have been concentrated on the improvement of English education in the schools as well as on increasing their number. There is no doubt that for the size of the Province these high schools are insufficient in numbers, and in many cases deficient in standard.

4. In respect of technical and professional education Burma is still more backward. It has had an engineering school, but one only capable of turning out subordinates for the Public Works Department. It has had an excellent forest school which provided trained men but again only for the subordinate forest service, and it has had a medical school in Rangoon which was, however, mainly attended by Anglo-Indians, Anglo-Burmans and Indians domiciled in Burma, though of recent years efforts to induce more Burmese to enter the medical profession have met with greater success. It was only in the subordinate forest service that the Burmese element largely predominated. In the other technical services there was merely a sprinkling of Burmese who had attended institutions like the engineering colleges of Roorkee and Sibpur and medical institutions at Calcutta.

The Agricultural College at Mandalay will only be opened this year, but during the last few years Burmans have been sent with State scholarships to the Agricultural College at Poona, and a few Burmans have also been sent for technical training in England as Government scholars.

5. The two Services in which the non-European element is almost entirely Burman are the Provincial Civil Service, to which Indians were not admitted unless long domiciled in Burma, and the subordinate Forest Service. In the Public Works Department and the Medical Department there were a fair number of Burmese subordinates. Efforts are now being made to establish higher forest courses as a branch of the Rangoon University and similar University courses in medicine and engineering, but some time must elapse before these new departments in higher professional education turn out a sufficient supply of qualified men to meet all local needs. It follows from these remarks that, with the exception of the Provincial Civil Service, the number of Burmans in the higher Services are at present extremely few, and I proceed to give an analysis of their numbers as ascertained from the latest Burma Civil List.

6. The distribution of races in the Services in Burma on 1st January, 1924, was as follows :—

(1) *Burma Commission*.—The Burma Commission has 142 officers on the executive side, and 26 officers on the judicial side, or a total of 168. There are, in addition, 8 temporary and officiating posts, making 176 in all. Of these, 6 permanent posts are held by officers of the Provincial Service and 5 judicial posts to which appointments have been made direct from the Bar. Of the temporary and officiating posts, 6 are held by members of the Provincial Service and 2 by members of the Bar. There are only 2 Indians in the I.C.S. in Burma; one is retiring on a proportionate pension and the other is a Judge. In the I.C.S. proper there are only 4 Burmans, dating from 1922, and they have passed no competitive examination at all. Counting all the posts, permanent and temporary, held by members of the Provincial Service and the Bar, the total number of Burmans is 16 out of 176, and of the remaining 160, 2 are Indians, the rest being all British officers, of whom 21 are military officers of the Commission.

(2) *Burma Frontier Service.*—In the newly constituted Burma Frontier Service, which is outside the jurisdiction of the Legislative Council altogether, and deals with tracts entirely excluded from the Reform Scheme, and administered by the Governor himself, there are at present 36 officers. Two only are Burmans, holding Treasury charges. Burmans strongly dislike work which entails great isolation among non-Burman populations. The remaining 34 officers are all British.

(3) *Provincial and Subordinate Civil Services.*—In the Provincial Civil Service, of a total of 141 officers 30 are British or Anglo-Indians, and in the Judicial Provincial Service there are 6 Anglo-Burmese. All the rest are Burmese. Even in the subordinate Civil Service there still remain 4 Anglo-Burmese.

(4) *Indian Police Service.*—There are, in all, 91 officers of the Indian Police Service in Burma. Among these there are 2 Burmans who hold substantive appointments as Superintendents of Police, and there are 3rd more senior Burman officers who were officiating in these appointments. On the 1st January last there were also 2 more Burmans junior in the Service who were officiating in district charges. Altogether out of the 91 officers in the Indian Police Service in Burma, there are only 7 Burmans, 5 of whom are only holding officiating appointments as district superintendents.

(5) *Provincial Police Service.*—In the Provincial Police Service there are 43 permanent and 5 temporary Deputy Superintendents, of whom 26 and 3 respectively are Burmans. There are 2 Indians and all the rest are Europeans and Anglo-Indians or Anglo-Burmese. There are also 10 officiating Deputy Superintendents, of whom 6 are Burmans and 1 is an Indian.

(6) *Indian Agricultural Service.*—The officers of the Indian Agricultural Service in Burma are, with one exception, newly recruited officers from England. There are only two vacancies still to be filled, and some time must elapse before qualified Burmans will be found who are fitted to fill them. This is clear from an examination of the present Provincial Agricultural Service. The sanctioned cadre for this Service of Assistant Directors is 19, but only 4 of these vacancies have been filled up to the present, while there are 2 Indians outside the cadre on three years' contracts, one of these being employed as a research assistant in chemistry and the other as a lecturer in botany. These two Indians will, apparently, if they prove themselves capable, be appointed to the cadre of Assistant Directors in the absence of any qualified Burmese candidates.

(7) *Indian Veterinary Service.*—So far as this Service is concerned 6 appointments have been made to a cadre of 9 in the Provincial Agricultural Service. One of these officers is at present officiating temporarily in the Indian Veterinary Service. The 2 more senior men in the Provincial Veterinary Service are both Indians.

(8) *Indian Forest Service.*—The whole strength of the Service in Burma is 1 Chief Conservator of Forests, 9 Conservators and 109 Deputy and Assistant Conservators. Out of these 119 officers there are only 2 Burmans to be found, and they were recently promoted from the Provincial Service. This strength includes 8 forest engineers and there are some timber experts and assistants, all of whom were trained either in America or by European firms in Burma itself. For this latter class of work there are no Indians or Burmans at present available.

(9) *Provincial Forest Service.*—Apart from the Provincial Services, there are 4 Extra-Deputy Conservators of the old cadre. All of these belong to the domiciled community. In the Provincial Forest Service, known as the Burma Forest Service, the sanctioned cadre is 109, but there are only 69 officers at present appointed, of whom 23 are Burmans, or one-third of the total. Of these 23 all but 3 or 4 have been appointed since 1921, so that even in the Provincial Forest Service the entry of Burmans is quite

a recent departure. There is one Anglo-Burman, calling himself by an Indian name, in this Service.

(10) *Indian Educational Service.*—In this Service the whole cadre should be 37 officers, but 7 posts are vacant, and there are only 30 officers actually serving. Of these 30, 2 are Indians and 2 only are Burmans, the rest being Europeans.

(11) *Burma Educational Service.*—In the Burma Educational Service proper there are 41 posts. These are held by 2 Chinamen, 11 Indians and 12 Burmans, the rest being Anglo-Indians. Five Burmans are, however, officiating.

In the 28 Government High Schools, 6 headmasterships are held by Burmans and 2 by Indians, the remainder being held by Europeans and Anglo-Indians. Among the Professors and Lecturers of University College, Rangoon (the only Government College in Burma), out of a total of 37 there are 9 Indians and only 5 Burmans, and the Burmans have not yet progressed beyond the stage of Assistant Lecturers. The remaining 23 appointments are all held by British officers.

(12) *Indian Service of Engineers.*—There are altogether in the I.S.E. in Burma 86 officers, of whom 8 are Indians and 5 are Burmans. All these Indians and Burmans are still in the rank of Assistant Executive Engineers, although 2 or 3 of them occasionally officiate as Executive Engineers. There are 7 officers in the Sanitary Engineering branch, and among the Assistant Sanitary Engineers quite recently appointed are 1 Indian and 1 Burman. There are 45 temporary engineers in addition, of whom 12 are Indians and only 1 is a Burman.

(13) *Burma Engineering Service.*—Turning now to the Burma Engineering Service, the full strength ought to be 100, but up to January only 54 had been procurable. Of these 54, 34 were Indians and only 5 were Burmans.

There are still, survivors of the old upper subordinate service in a little class by themselves, 11 sub-engineers who are qualified as engineers. Of these 11, 5 are Indians and only 1 is a Burman.

Taking all these officers, they come to 203 in all, of whom 60 are Indians and only 13 are Burmans.

To take the Irrigation Branch only in the I.S.E., there are 3 Burmans and 7 Indians out of 23 officers in the Provincial or Burma Engineering Service. Of the 13 officers on the Irrigation side, 7 are Indians and 2 Burmans. Among the temporary engineers numbering 12, 5 are Indians and there are Burmans.

(14) *Medical Department.*—The total strength of the I.M.S. in Burma is 34, which includes 2 Indians and 1 Burman. There are 4 special appointments in connection with hospitals set apart for private practitioners, and 3 of these are held by Burmans, the fourth being a European. There are 4 special medical appointments called permanent civil surgeons, the survivors of a larger number. These 4 posts are now occupied by Indians, all the European members of this small local Service having retired. There are 58 civil and military assistant surgeons holding special charges. Of these 26 are Indians and 10 are Burmans. In the Port Health Dept. there are 4 officers, of whom 2 are Indians. Out of the 104 medical officers, therefore, 34 are Indians and only 14 are Burmans. The Civil List does not contain the sub-assistant surgeons, of whom there are over 200 in Burma, but the larger proportion of these appointments is held by Indians, for, as already stated, it is only in recent years that it has been possible to induce Burmans to enter the Rangoon Medical School.

(15) *Central Services.*—In the Central Services there are very few Burmans indeed, the reason being that men entering the Central Services, such as Customs, Posts and Telegraph, are liable to serve anywhere in India, and as Burmans are never anxious to serve in India they have no ambition to enter the Central Services in any numbers. In the Accounts Department there have been, however, 2 Burmans, who entered that Service many years ago, and, it may be added, distinguished themselves in it.

Generally, it may be said that the Burman is not over fond of routine work. In the districts the clerks are mainly Burmans, with some domiciled Europeans, Anglo-Indians and Anglo-Burmese, but at the Central Offices in Rangoon, such as the Secretariat, the Offices of the Accountant-General and of other heads of Departments Indian clerks largely preponderate. Local Post Offices are largely manned by Indian Sub-Postmasters, with European Postmasters in the larger places. There is a large Indian personnel in the Railways, but although great efforts have been made of late years to induce more Burmans to enter these offices and departments the success has not been very great.

7. It will be clear from the above analysis that as regards the progressive association of Burmans in the higher Services, however great may be our desire to fill them with Burmans up to the appointed ratio, the practical difficulty of finding qualified men will for a considerable time make it exceedingly difficult for this ratio to be reached. In the Indian Civil Service there might not be, perhaps, the same difficulty, for the Provincial and Subordinate Civil Services have been for many years past, since the annexation of Upper Burma, the almost close preserve of Burmans, the few educated men who were turned out at the schools and colleges having found no difficulty in obtaining appointments in the Subordinate Civil Service, from which they were able to rise to the Provincial Civil Service. But for some time to come the officers at the top of the Provincial Civil Service will be officers who have not the educational qualifications of the younger men. A great many of them do not know English at all; and many more had only reached standards like the fifth, sixth and seventh before they left school. Of the younger men there is now a considerable majority of graduates, and as the older men retire their place will be taken by successors with better education, though perhaps with not more practical ability than the older men, many of whom, I am glad to say, do work which will hold its own with the work done by the senior officers in the various Provincial Civil Services in India. I do not anticipate, therefore, that there will be much difficulty in supplying the quota of officers to hold superior charges from the ranks of the Provincial Services. But with the I.C.S. the case is somewhat different. It was only in 1923 that the first Burman succeeded in winning a place in the London examination; he has not yet joined his appointment in Burma. But as stated in the analysis above the only four Burmans entitled to write I.C.S. after their name were appointed by nomination. It is difficult to say to what extent Burmans will in future enter for the Allahabad examination for the I.C.S., even if that examination is held in compartments by Provinces, a scheme which has much to commend it and which is, indeed, essential in the case of Burma. It might be difficult to find qualified candidates since before a candidate can be selected in the Allahabad examination he must at least obtain qualifying marks. The number of Burmans who may hope to succeed in London in future is also somewhat problematical, for although Burmans are by no means lacking in capacity they are not so good in the examination room as the best candidates from Bengal, Madras and Bombay.

As the schools improve, the grounding in English is better, and the Rangoon University has time to develop its various courses, the supply of qualified Burmans will certainly increase; but in the meantime, in order to preserve the ratio fixed for India, the examination test may break down. At least this is a possibility which must be faced.

8. It so happens that a competitive test in Burma is a far better test for the public service than it is in India, for in India we have constantly to take precautions lest the more nimble witted candidates from the South should succeed in excluding candidates from the North. We have to provide, if possible, for a reasonable ratio in the service of Mahomedans, whose education, as a community, is more backward than that of Hindus.

We have to see that the landed gentry and martial races find some representatives in the Services. But in Burma there is no need for such differentiation in order to secure definite representation of the various classes. The Burmese student is not so fond of hard work as the Indian student, who frequently overworks himself, a complaint which is not common in Burma. The result is that the examination test in Burma is more calculated to bring to the front the boys who have the most grit and perseverance as well as those most gifted with brains. It would, therefore, be a great pity if the required ratio of Burmans in the I.C.S. had to be obtained by the process of nomination for want of successful candidates in the competitions in London and Allahabad. It is almost certain that such nominated candidates would have to be obtained from the ranks of the Provincial Civil Service, and it would certainly be a great temptation to Burmese students, and to their parents, not to incur the risks and expense of an education in England if the same prizes could be won by a much cheaper education in Burma and as the result of nomination.

9. Similar difficulties will result in the case of the Indian Police, but in that Service it is a matter of less moment whether candidates are procured by the road of examination or by the road of promotion from the Provincial Police Service. In fact, if examination tests fail to secure candidates for the Indian Police Service in Burma there is but slight objection to all the candidates for the Services being obtained from the ranks of Deputy Superintendents who added to a reasonable education the qualification of having discharged their duties well in that capacity.

10. In the case of the professional and technical services, the difficulties are very much greater. One may stretch a point when appointing young men to the Provincial Civil Services, or even to the I.C.S., if they have secured good degrees at the University, but one cannot appoint Burmans, or members of any other race, to be engineers, forest officers or doctors if they have not passed all the necessary professional tests after a thoroughly reliable training. As I have stated above in this note, every effort has been, and is being, made to equip Burma with institutions of its own where such professional training will be available, for it is useless to disguise the fact that the engineering, forest, and medical colleges in India do not attract the Burmese student. If he has to leave Burma at all for his education, both his parents and himself generally have their eye upon a training in Europe or America, and naturally this source of qualified Burmans is limited by the fact that not many Burmese parents are prepared to go to the great expense involved of sending their sons to Europe for a long course of training in these various professions.

11. A somewhat delicate question arises in connection with the manner in which the Burmese ratio in the Civil Services should be filled up in the event of qualified Burmans not being available in sufficient numbers. Indians find it difficult to realise that the Burmese themselves are averse from having these vacancies filled up by Indians. It is quite certain that if by a difference in the course of history Burma had been included in the British Empire before India, and that if a large number of Burmans became qualified in Western education in advance of Indians, the Indians would not have liked to have their country flooded by educated Burmans, and the converse is the case with Burma at the present time.

It is quite true that at the time of the annexation of Upper Burma, 1st January, 1887, when a large influx of British officers of all Services became an obvious necessity, the qualified subordinates in all these Services were only procurable from India, and there were numbers of Indians anxious and willing to take up these appointments. At that time the attitude of the Burmese people was one of some indifference. They had no particular desire for English education, they regarded government as one of the five necessary evils, with which the less you had to do the better, and they accepted its decrees and orders with resignation. As there were no Burmans with the necessary qualifications for all these professional and technical services, and

as Indians were imported to fill these posts, the Burmese were too indifferent to raise any objection. But of late years there has been such a rapid awakening in Burma in political circles, and even outside them, that the cry of Burma for the Burmese has penetrated even into the villages. Associations have sprung up all over the country for the stimulation of national aspirations, and these aspirations were greatly fostered by British officers themselves during the war when recruitment for newly formed Burmese regiments was carried on with great vigour and enthusiasm.

The cry of Burma for the Burmese has therefore come to stay, and although certain Burmese politicians may not be anxious for the moment to offend Indian politicians in Burma who have been assisting them in voicing their national aspirations, yet, at the same time, no one who knows the country can possibly affirm truthfully that an influx of Indians to fill Burman vacancies in the Services would be generally welcomed by the people of Burma. So far as the Services working in the reserved field are concerned, the Secretary of State will naturally be charged with filling the vacancies in these Services by British or Burmese candidates, according as he may find possible, but in the case of the Services working in the transferred field it will be left to the Local Government, in this case the Governor acting with his Ministers, to fill the Services with suitable qualified candidates. But so far as the Indian Civil Service is concerned, the few Indians who were appointed in the past have either succeeded in obtaining a transfer back to India, or, if they remained, have never ceased to make efforts to obtain such a transfer, and, as already stated, there is only one of these now in the Burma Commission, so that, even under old conditions, the Government of India had not accepted the Burma Government's representation that Indians should not in future be posted to the I.C.S. in Burma.

12. Greater difficulty will be felt in the engineering, forest and medical departments, but it is left to the Local Government to decide on the composition of these Services. A few years ago, when the question was discussed whether the Indian Forest Service should be trained in Europe or at Dehra Dun, the Burma Government expressed a preference for training in Europe, even if the rest of India preferred the Dehra Dun education. It was contended, and the contention, I think, holds good to this day, that the unpopularity of Dehra Dun with Burmans would militate against the supply of qualified Burmese candidates who would be more likely forthcoming if the training were conducted in Europe. It seems most probable that the Burma Government, with whom the decision will lie, will prefer to obtain its forest officers through the Secretary of State, even though they may be working in a transferred department. The forests of Burma cover an area of 100,000 square miles, an area larger than that of Great Britain, Bengal, or Bihar and Orissa. Up to the present only 20,000 square miles are reserved forests, but there are a great many unclassed forests, which will have to be reserved both in the interests of the Provincial revenue and for the benefit of the agricultural population.

Moreover, the forests in Burma are a magnificent asset to the country. The revenue is already 2½ crores per annum, and as time goes on may be expected to attain to double that amount. There are numerous valuable timbers which have still to be exploited, in addition to the large production of teak for which Burma is famous.

Under existing orders the percentage of direct recruitment of Burmans for the Indian Forest Service has been fixed at 25 for the period of 5 years from 1921, and in addition recruitment by promotion from the Provincial Forest Service into the All-India Service has been fixed at 12½ per cent. of the posts in the All-India Services. In Provinces where forests are still a reserved subject the British proportion in the proposals of the Report has been reduced to 25, provided always that the necessary Indian candidates are forthcoming. It will be, however, obviously impossible for the present to find sufficient Burmans for the 75 per cent. ratio, especially when it is remembered that up to the present they have shown no

enthusiasm for service in forests. The Burman who lives in the districts, and among or in the neighbourhood of the forests, makes an excellent forester, but the Burman who can pass the necessary educational tests does not generally care for the isolation and hardship of a forest officer's life.

The recent higher forest courses in Rangoon have been well filled, and surplus candidates could not be admitted, but it is by no means certain that all those who have put their names down for these courses and entered for them will persevere in their effort to a later stage. At any rate, the decision is left with the Government of Burma to obtain its qualified forest officers in the best way that it can, and the road is open to them if they so prefer it to obtain for their forest service the same class of candidate and by the same methods as Local Governments will employ in Provinces where forests are still reserved.

13. In the case of the Medical Department, the Government of Burma will, under the proposals of the Report indent for the prescribed number of officers from the R.A.M.C. (India), and it will have to decide how, having obtained the necessary number of British Officers, it is to find the rest. It will have the option of continuing to employ officers of the Indian Medical Department, viz., military assistant surgeons of whom it is already employing some 19 officers, seven in charge of districts as civil surgeons.

The same liberty will be accorded to the Local Government in respect of the other services working in the transferred field and it will be open to the Governor and his Ministers to recruit Indians with scientific attainments when no Burmans are forthcoming; or they may, if they prefer it, recruit British officers to fill vacancies in the same way as they have always been obtained through the Secretary of State, or by direct recruitment if they can secure competent recruits in that way.

(Signed)

REGINALD CRADDOCK.

Dated 30th April,
1924.

MINUTE BY SIR REGINALD CRADDOCK ON THE EMOLUMENTS OF THE SUPERIOR CIVIL SERVICES IN INDIA.

I have accepted, though with some reluctance, the scheme of improved emoluments for the All-India Services which is explained in the Report, for I recognise the great value of agreed proposals and the better chance of speedy acceptance by the various authorities concerned of recommendations which have the force of unanimity behind them. I recognise also that the scheme in the Report does afford a substantial measure of relief to the Services in respect of passages, remittances, pensions and in some other particulars, all of which, taken together, will lighten them of some of the heavy expenditure that now falls upon them owing to the changed conditions both in India and in England.

2. But my colleagues, Indian and British alike, have approved the proposal that I should include in an Appendix to the Report an explanation of the scheme which I laid before them, in case at a later period, if Indian finances improve, and savings due to increased Indianisation begin to accrue, some further amelioration of the emoluments of Englishmen, serving in India may be found practicable. I accordingly submit my scheme for what it may be worth with such explanation as is necessary

3. Immense pains were taken by Local Governments, the Government of India and the Secretary of State in devising the time-scales for the various Services which were announced during the years 1919-21. But owing to the facts that the process of revision began in 1917 before the rise in prices that was taking place in India could be properly appraised, that the Services were in the first instance dealt with one by one, that in 1920-21 the enormous rise in exchange took place which upset all calculations, that the principle of overseas pay was adopted after some time-scales had been announced, and that the amount of it was the subject of much debate; while the new idea of technical pay in the case of engineers trained in England was superimposed at a comparatively late date, it was inevitable that a great deal of tinkering and patching had to be employed, with the result that a comparison of the present time-scales of various Services shows irritating differences, and, indeed, a number of anomalies, between the different Services for which there is no explanation of substance. It is really impossible to justify annual increments of only Rs.25 per mensem in the case of the Police as compared with increments of Rs.50 in other Services. Indeed, the rate of annual increment in the Police is smaller in many instances than in some of the Provincial Services. It is impossible to justify a system under which such sister services as the Indian Service of Engineers and the Indian Forest Service chase each other up the time-scale, now one and now the other forging ahead. It is impossible also to hold that the Indian Agricultural Service should be Rs.50 behind the Indian Educational Service. If really good men are to be attracted and maintained in contentment in any of these Services, they must be men with a good general education and of high character who have specialised in some particular branch of knowledge. There might be possible differences in market value in England between this or that profession according to the fluctuating supply and demand of the moment; but when once men so educated have been brought out for a life career in India, there is nothing in their style of living and their home expenditure, nor, indeed, in their relative usefulness to the country which can be weighed exactly by differences of Rs.25, Rs.50 or even Rs.100 a month. Nor can it be alleged

that the prizes available to one Departmental Service can be on a much lesser scale than those available to another. In this matter exact similarity is not always attained; but marked differences should be avoided. There also does not appear to be any sound justification for having many different Service periods at which overseas pay rises, and these differences have obviously been caused by difficulties in adjusting basic and total pay rather than by inherent differences.

The standard of pay which I put forward in my scheme for all the Departmental Services is drawn up with due reference to the various points noticed above.

4. The principle has been universally accepted that the Indian Civil Service as a premier service, namely, the one that has to discharge the widest responsibilities of all, should be paid on a higher scale than the other Services, all of which are responsible only for the single department which is in their charge. But, if the Indian Civil Service, and in some respects the Indian Medical Service, be excluded, there is no solid reason why one Service should be paid any higher or any lower than the others. The Police have been paid at a lower scale than the rest for many years, though this was not so marked some 40 years ago; but, as young British recruits come out at the school leaving age and have not had to go through an expensive University or technical or professional education, the lower rate of remuneration was thought to be justified. It is quite proper that boys of 20, who come out to learn their work in India, should not be paid quite so highly as young men who start at ages from 23 to 25, after an expensive course of training. But once these boys in the Police have reached the age of the young men of the other Services, there is no further reason for keeping up the differentiation. Even if their education, general or professional, is not comparable to that of their brother officers in the other Services, the responsibilities that they have to discharge, the unpopularity which is their lot, the risks and dangers that they have to face, may surely be taken as counter-balancing a cheaper initial education. There are officers in the ranks of the Police who can hold their own with any officers in India, and it is now more than ever essential that the Indian Police Service should contain the best material, British and Indian, and that it should be of the same class that enters the Army. If it is once conceded that the Police should be paid on the same scale as other Departmental Services, then this is an additional argument for paying these Services the same.* I will now set out my scheme.

(A) *Basic Pay.*

5. During the three first years of the young Police officer's service, the basic pay is slightly increased so as to make it more attractive to the young Indian candidate. It is at present scarcely more attractive than many Provincial Services. On the other hand the overseas pay is retained at Rs.125 for three years and is, I think, sufficient for boys of ages 20 to 23.

6. Except for this single deviation, the basic pay for all the Services other than the Indian Civil Service and the Indian Medical Service (which Services are separately considered), starts in the 4th year of the Police and the 1st year of the other Services, at Rs.400 and rises to Rs.1,400 in the 26th year of the Police and the 23rd year of the other Services. The increments are mostly Rs.50 per mensem a year, with occasional pauses of one year. The maximum basic pay on the junior scale is Rs.950, attained in the 15th year (Police 18th), though, of course, it is extremely improbable that any officer, unless inefficient, will be so long on the junior scale. The difference between the junior and senior scale is calculated to give an officer officiating in a superior post an increase of Rs.150 over the pay of the junior scale. The technical pay in the Public Works Department is generally absorbed into the basic pay.

(B) Overseas Pay.

7. As regards overseas pay (again excepting the first three years of the Police) the rates which I have proposed are the same for all Services, including both the Indian Medical Service and the Indian Civil Service. It is impossible to give an absolutely exact age scale, but the approximate average age of each Service (Police excepted) is assumed at 24 for the 1st year's service (Police 4th year's service), and on that basis it is not likely to be out by more than a year either way, and the rates of overseas pay are adjusted as follows.

Under 30, first six years of service (Police 4th-9th), Rs.150.

It is reckoned that an officer will be married about 29 or 30, and in the 7th year (Police 10th) the overseas pay rises to Rs.250.

At an approximate average age of 34, the 11th year of service (Police 14th) when a small family may be expected, the overseas pay is raised to Rs.300.

At an approximate average age of 40, 17th year of service (Police 20th) when the children have to be educated in England, the last rise of overseas pay up to Rs.350 takes place.

8. After full reflection I do not find it desirable to reduce Indian basic pay; if any All-India Services are closed to future entrants, and the work of the department transferred is carried out by Provincial Services, the Ministers concerned will doubtless fix the rates of pay. But so long as any Services are maintained as All-India Services, the basic pay must be decidedly higher than the normal rates of Provincial Services, and the discrepancy between the Indian and British official's pay in rupees must not be too large.

The maximum of Rs.250 overseas pay hitherto sanctioned was on a very low scale as compared with the heavy expenditure entailed by home charges, but I have not seen my way to propose a rise above Rs.350. This will, however, be accompanied by certain exchange benefits which I will proceed to describe.

(C) Sterling Remittance Benefits.

9. I have been, like many others, a consistent opponent of any differentiation between bachelors and married men; but the logic of events has compelled me to change my mind. There is a very general impression that the pay in the Services is fairly adequate for bachelors except in some of the lower paid Services; but there is abundant evidence that the married officers, especially those with children to be educated, are often in a state of penury. A Police officer, for example, aged 40, having a wife in England and two children to educate, would be receiving Rs.1,300 a month. His wife and children in England will cost him £600 a year at a very moderate computation. He will have to remit Rs.750 a month, leaving himself Rs.550 to live on. By the time that he has paid income tax, provident fund deductions and an insurance premium, he will have less to live on in India than the latest joined recruit of 21 years of age. There are hundreds of cases in the Services like this, and the home charges are often larger than the £600 mentioned. It is obvious, therefore, that if an attempt is to be made to give really substantial benefits to the married officer which the bachelor is to share in, the bachelor will be overpaid and the State will be put to needless expense. My scheme therefore provides for overseas pay to be paid in sterling, or remitted, at 2s. to the rupee only in the case of married officers, and not in the case of bachelors or childless widowers. If an officer in the early years of his Service has a wife and family in India, he can derive the benefit of remitting his sterling overseas pay back to India at current rates if he chooses; but I cannot see any case for a bachelor being allowed to speculate in exchange at the cost of the State, and I consider that the rupee pay including overseas pay should amply suffice for the bachelor officer.

10. I have, however, a further concession to suggest which should be limited to officers actually having a child or children to educate in Europe, namely, that he should be allowed to remit at 2s. to the rupee out of his ordinary pay a sum equivalent to half his overseas pay. The reasons for this proposal are :—

- (1) To avoid making too great a difference between Indian basic pay and the total pay drawn by British officers the maximum of overseas pay proposed by me is Rs.350 which converted at 2s. to the rupee is still not adequate to meet the heavy expenses of a young family at school or college in England.
- (2) That in the interests of the State any extra relief granted should be rigidly restricted to the actual cases where need is felt.
- (3) That it is most desirable that the State should do nothing to discourage either the bringing into existence of small families or the proper education of the children, for under present circumstances so many families are content with having one child only, that the class which have supplied officers to the Army and to the Civil Services in India is likely to diminish and with them all the traditional hereditary connections with India which have been so valuable in the past. It is very necessary that officers in the Indian Services should not be any longer in the position of discouraging their sons from entering on an Indian career.

To make clear the improvement in emoluments which this scheme of remittances of Rs.10 to the pound confers, I put down certain figures :—

Overseas pay, Rs.150	at 1s. 4d.	=	£120	a year.
	" 2s.	=	£180	"
	Benefit	=	£60	"
" "	Rs.250	at 1s. 4d.	=	£200
	" 2s.	=	£300	"
	Benefit	=	£100	"
" "	Rs.300	at 1s. 4d.	=	£240
	" 2s.	=	£360	"
	Benefit	=	£120	"
" "	Rs.350	at 1s. 4d.	=	£280
	" 2s.	=	£420	"
	Benefit	=	£140	"

All married officers would enjoy these benefits over and above the rupee pay, at the following approximate average ages :—

Ages below 30	..	..	..	£60 per annum
" 30 to 33	..	..	..	£100 "
" 34 to 39	..	..	..	£120 "
" 40 and over	..	..	..	£140 "

These are equivalent to a further increase of rupee overseas pay if exchange were at 1s. 4d. of Rs.75, Rs.125, Rs.150 and Rs.175 per mensem respectively.

The additional benefits recommended for officers having a child or children in Europe would be half these amounts in addition, making a total benefit of £150, £180 and £210 when the overseas pay is Rs.250, Rs.300 and Rs.350 respectively (there are not likely to be officers below 30 having children being educated in England. If a stray case should occur the total benefit will be £90). An officer on Rs.1,300 at age 35, having two children being educated in England costing him £480 a year, would now be remitting Rs.600 a month, leaving himself only Rs.700 to maintain himself and his wife in India. He would, under this scheme, be drawing overseas pay of Rs.300 instead of Rs.250 at present, and he would be entitled to remit Rs.450 at 2s. to the rupee. He would thus only require to remit Rs.4,800 a year or Rs.400 a month instead of Rs.600, and he would be entitled to remit another Rs.50 a month, worth £60 a year instead of £40. At the age

of 40 his pay would be Rs.1,500, and he could remit Rs.525 at 2s., producing £52 10s. 0d. a month or £630 a year, leaving himself over Rs.900 a month to live on in India.

11. Apart from the increase of Rs.100 in the overseas pay which is common to all officers, the extra cost to Government would be equivalent to Rs.175, plus Rs.87½ = Rs.262½ per mensem, but that is the maximum liability of the State for any officer, and only when the rupee is at 1s. 4d. If the rupee rises above this, the State gains by the rise. This maximum liability is only incurred in the case of officers who are 40 years old, and then only if they have children being educated in Europe. All these remittance benefits would appear in the exchange accounts of the High Commissioner. They would fluctuate with the fluctuations of exchange, and vary with the varying circumstances of the officer, so that they could not be shown in rupees on the Civil Lists. I now proceed to comment upon the various Services as affected by my scheme.

INDIAN MEDICAL SERVICE.

12. This Service has been treated and must continue to be treated by itself, because of its connection with the Army. If, as is recommended in the Report, the Indian Medical Service is replaced for future recruits by officers from a Royal Army Medical Corps (in India), the scale of salaries would naturally be those of the Indian Medical Service. It is necessary that this Service should be attractive, and although private practice continues, it is much less than it used to be, while in the case of prize appointments there is likely to be greater competition in the future.

13. The pay of this Service is distributed by Army rank. A comparison of the pay sanctioned in 1920 with my new scale for purely Civil Departmental Services and with the overseas pay revised as in my scheme, shows that for the first nine years the Indian Medical Service scale is slightly better than the standard, and the same occurs from the twenty-first year onwards when the officer attains the rank of a Lieutenant-Colonel. I think that on the whole it is fair to count the Captain with the junior scale and the Major with the senior scale. The weak point in the present scale seems to me the small addition to pay when an officer is first promoted to Major's rank. If Rs.100 be added to the basic scale of the Major's pay for the first two years, Rs.150 in the third year, nothing in the fourth, and Rs.50 for the next two, and if overseas pay is fixed according to the standard I have proposed, this will, without altering much the general scheme of the basic scale, give required relief in the middle married years and prevent any grievance by comparison with the other Services. It merely means bringing in the rise to Rs.1,100 on the present scale one year earlier. Once an officer has been a Lieutenant-Colonel for three years his pay compares with the selection grades of other Services.

The comparison for these particular years is as follows:—

Rank.	Present.			Proposed.			Compare standard rate.
	Basic.	Over-seas Pay.	Total.	Basic.	Over-seas Pay.	Total.	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Major, 13th	950	250	1,200	1,050	300	1,350	1,350
.. 14th	950	250	1,200	1,050	300	1,350	1,350
.. 15th	950	250	1,200	1,100	300	1,400	1,400
.. 16th	1,100	250	1,350	1,100	300	1,400	1,400
.. 17th	1,100	250	1,350	1,150	350	1,500	1,500
.. 18th	1,100	250	1,350	1,150	350	1,500	1,500
.. 19th	1,250	250	1,500	1,250	350	1,600	1,550
.. 20th	1,250	250	1,500	1,250	350	1,600	1,600

In effect the Major's basic pay will rise every two years instead of every three. Except for this I propose no other change in the basic pay of the Indian Medical Service.

The subsequent stages will be :—

	<i>Basic.</i>			<i>Overseas Pay.</i>		<i>Total.</i>
	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	
Lieutenant-Colonel, 24th	1,600	350				1,950
" " 25th	1,600	350				1,950
" " 26th	1,700	350				2,050
Lieutenant-Colonel on selected list ..	1,850	350				2,200

INDIAN CIVIL SERVICE.

14. The Indian Civil Service has always been paid more highly than the uncovenanted Services so called, but 40 years ago the disparity was much greater than it is at present, and in the revisions of 1919 to 1921 the Indian Civil Service were given much less than the other Services. Owing to the grade system which was then superseded by the time-scale, it is exceedingly difficult to estimate the exact percentage of increase which the time-scale gave, because on the graded system, when there was no marked block, an officer got windfalls by acting two grades higher than his permanent one for short periods. It was thought when the time-scale was introduced that it would raise general pay by about 15 per cent., but later calculations have shown that the increase was actually not more than 8 per cent. Probably 10 per cent. would be an outside estimate. Even now, however, the bachelor in the Indian Civil Service is not at all badly off. His ordinary pay rises on a time-scale from Rs.600 to Rs.2,500, and he has many appointments open to him while he is still on the time-scale carrying allowances of Rs.150 to Rs.250 a month. Of appointments above the time-scale there are also more carrying higher pay than in other Services. Besides Commissioners of Division in all Provinces except Madras (where the time-scale is higher) there are such appointments as Financial Commissionerships, Members of Boards of Revenue, Judicial appointments and numerous appointments under the Government of India and in the Government of India Secretariat. In all the circumstances I feel that, so far as the time-scale is concerned, basic pay does not require much change. But the Service should receive exactly the same benefits in regard to overseas pay and exchange advantages as are accorded to all the Services. The rupee value of these overseas benefits represents not more than 4 per cent. increase on the present time-scale, but the sterling benefits will be substantial in the case of all married officers, and will raise the advantage on the time-scale to about 14 per cent.

15. There are, however, a few slight adjustments in the basic pay that I have to suggest. In the fourth year junior scale I make the total pay Rs.800 a year only. The young officer is beginning to do very valuable work in charge of a sub-division, and under the old graded system he began to act in higher grades of Rs.900 and sometimes even Rs.1,000 at this stage in his service. I therefore propose the following small changes :—

<i>Year.</i>	<i>Present.</i>			<i>Proposed.</i>		
	<i>Basic.</i>	<i>Overseas</i>	<i>Total.</i>	<i>Basic.</i>	<i>Overseas</i>	<i>Total.</i>
	<i>Pay.</i>			<i>Pay.</i>		
	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>
4th	600	150	750	650	150	800
5th	650	150	800	650	150	800
6th	700	150	850	750	150	900

In the senior scale, again in the 6th year, I would increase the basic pay by Rs.50, making it Rs.1,100 instead of Rs.1,050, or total pay Rs.1,250 instead of Rs.1,200. This corresponds with the increase in the junior scale in the 6th year. In the 10th and 12th years I get rid of the Rs.75 increase,

and these years will compare as follows, the overseas pay being revised as in my scheme.

Year.	Present.			Proposed.		
	Basic.	Overseas	Total.	Basic.	Overseas	Total.
	Pay.			Pay.		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
9th	1,200	200	1,400	1,200	250	1,450
10th	1,275	200	1,475	1,300	250	1,550
11th	1,350	200	1,550	1,350	300	1,650
12th	1,425	250	1,675	1,450	300	1,750

Lastly, in the 19th and 20th years, I propose to fix the basic pay at Rs.2,150 which will, with the Rs.350 overseas pay make pay for the 19th, 20th and 21st years an even sum of Rs.2,500.

The comparison will be—

Year.	Present.			Proposed.		
	Basic.	Overseas	Total.	Basic.	Overseas	Total.
	Pay.			Pay.		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
17th	1,900	250	2,150	1,900	350	2,250
18th	2,000	250	2,250	2,000	350	2,350
19th	2,050	250	2,300	2,150	350	2,500
20th	2,100	250	2,350	2,150	350	2,500
21st	2,150	250	2,400	2,150	350	2,500

A Collector used to jump from Rs.1,800 to Rs.2,250 on the graded system and frequently officiated on the higher pay for quite long periods. In the revision of pay of 1919 to 1920 the addition of overseas pay of Rs.250 raised the Rs.1,800 to Rs.2,050 and the Rs.2,250 to Rs.2,500, but it takes an officer six years to rise from Rs.2,000 to Rs.2,500. Hence I propose a quicker rise with a pause. All these adjustments though helpful to the officer concerned in these particular years only cause the basic pay for the whole period to be increased by 1 per cent.

RESULT OF APPLICATION OF PROPOSALS.

16. The result of these proposals as affecting the Civil Services is as follows :—

Services.	Increase per cent.		
	Basic Pay.	Overseas Pay.	Total.
	+	+	+
I.C.S.	1 per cent.	20·7 per cent.	4·4 per cent.
I.M.S.	2·1 ..	26·8 ..	6·6 ..
I.P.S.	11·5 ..	19·1 ..	13·1 ..
I.S.E.	4·5 ..	25·5 ..	8·2 ..
I.F.S.	7·9 ..	23 ..	10·9 ..
I.E.S.	5·6 ..	20·5 ..	8·4 ..
I.A.S. and I.V.S. ..	12·3 ..	20·6 ..	14 ..

The Indian Civil Service stands alone. The Indian Medical Service is not quite on the same scale because of the complication of military rank. The other Services are all adjusted to a single standard and receive exactly the same pay except (for the first three years) the Police. The Police 4th year counts with the 1st year of the other Services and the percentage in their case is calculated on 26 years as against 23 years in respect of the other Services. All these Services are given in my scheme exactly the same overseas pay at the same approximate ages. In the case of the Indian Medical Service the total of monthly pay during the 23 years is only Rs.450 above the standard, which is due to the small adjustments which I have made in the rank of Major. The calculations take these up to the

completion of three years as Lieutenant-Colonel. The higher pay that they receive after that date may be taken to correspond with the selection grades and lower administrative posts in other Services. The largest rises in basic pay occur in the case of the Police, who are most underpaid, and the Indian Agricultural Service and the Indian Veterinary Service. In the case of these two latter Services they are at present kept a year or so behind the Indian Educational Service for no reason that I have been able to ascertain. One special reason for the increase in the basic pay of these Services as well as the Indian Educational Service, and to some extent the Indian Forest Service, is that they have no separate junior and senior scales, and therefore do not receive the advantage of a rise from the junior to the senior scale which the other Services enjoy. I have provided for this in my scheme in the 9th year on the general assumption that an officer holds a superior post from about that period of his service. There is no special concession to these Services in giving them that jump then, because, as a matter of fact, these officers are holding superior posts even before that date. In the case of the Indian Medical Service the jump occurs when the officer is promoted to the rank of Major.

Improvements in the basic pay in the Indian Police Service, the Indian Agricultural Service, the Indian Veterinary Service, and the Indian Forest Service, are also required to make these Services relatively more attractive to Indians. In the Indian Educational Service this is not necessary, but the rise in the basic pay of that Service will be only 5.6 per cent., and occurs, for the reasons that I have explained, between the 9th and 15th years. The professions which are most popular with young Indians are those connected with law, education, accounts, engineering, and medicine. The first four do not necessarily involve an expensive education in England, but in medicine English training is most expedient. In the case of Forests, Agriculture and Veterinary, British degrees are essential, but there is a great deal of toil and exposure involved in these Services and even if Pusa, Dehra Dun and Muktesar develop further, these Services will still not be so attractive as the others. The Police require no special education, but it is an unpopular Service involving risks and exposure, besides special liability to false charges and consistent abuse.

In the revised scale I have made an endeavour to level up prospects and promotion in all the Services, so that any inherent unwillingness to enter any particular Service may not be accentuated by lower rates of pay, which, in the East, carry a concomitant stigma that one Service is inferior to another in status.

17. In respect of the Services which are to be provincialised if our recommendations are accepted, the scale in the younger years may seem to be theoretical only, but all local Governments may not adopt the same policy at the same time, and it is exceedingly doubtful whether they will obtain British recruits on lower terms than those on which existing British members of these Services were recruited. Even if the difficulty is met by the complete cessation of British recruitment in future, the Central Government may still require some, and in any case such tables must necessarily be complete in themselves. I attach to this minute scales for the Indian Civil Service, the Indian Medical Service and the standard scale for all the other All-India Services; I have also, to save mistakes, compiled tables for each of these latter which will show at a glance how the pay of each officer will be affected each year if the standard should be at any time adopted.

18. The figures in paragraph 16 show the percentage improvement in rupee pay of all the Services for 23 years (Police 26 years) which bring them from the bottom to the top of the time-scale. This will be enjoyed by everybody—married and bachelors alike. The further percentage improvement which remittances at favourable exchange adds to the

married officer cannot be calculated with equal precision, but if it be assumed that the average officer is married at 30, when his overseas pay rises to Rs.250, and that from the age of 40 his children are being educated in England, the benefits can be calculated with rough approximation. The case of those who married at an earlier period can be set off against those who are married later than the ages mentioned, and against those who have no family being educated in England.

Calculated in this way, from age 30 to age 33 the ordinary exchange benefit will be the equivalent of Rs.125 per mensem; from age 34 to 39 Rs.150 per mensem, and from age 40 to end of the time scale (age 46) Rs.262 8s. 0p. per mensem. This adds to the monthly pay totals of these years of service

4 years at Rs.125	=	Rs.500
6 years at Rs.150	=	Rs.900
7 years at Rs.262½	=	Rs.1,837½
Total	=	Rs.3,237½

* Now the monthly totals drawn by the various Services at the present time for 23 years (Police 26 years) are as follows:—

Indian Civil Service	Rs.36,350
Indian Police Service	Rs.26,125
Indian Service of Engineers	Rs.25,425
Indian Forest Service	Rs.25,450
Indian Agricultural Service	} Rs.24,200
Indian Veterinary Service	
Indian Medical Service .. .. .		Rs.26,250

The percentage increases which these exchange benefits will give to these Services will be:—

	Per cent.
Indian Civil Service	+ 8.9
Indian Police Service	+ 12.4
Indian Service of Engineers	+ 12.7
Indian Forest Service	+ 13
Indian Educational Service	+ 12.7
Indian Agricultural Service	} + 13.3
Indian Veterinary Service	
Indian Medical Service .. .. .		+ 12.3

If these percentages are added to those shown in paragraph 16 above, then the total increases in emoluments during the time-scale period under my scheme would be:—

	Percentage.		Exchange Benefit.		
	Pay.				
I.C.S.	4.4	+	8.9	=	13.3
I.M.S.	6.6	+	12.3	=	18.9
I.P.S.	13.1	+	12.4	=	25.5
I.S.E.	8.2	+	12.7	=	20.9
I.F.S.	10.9	+	13	=	23.9
I.E.S.	8.4	+	12.7	=	21.1
I.A.S. }	14	+	12.3	=	26.3
I.V.S. }					

19. In order to make it clear that the Police proposals are really favourable by comparison, I show what this increase would be if the first three years were eliminated altogether. Their monthly totals of emoluments from the 4th to the 26th year are Rs.24,700, and their increase in pay during these years amounts to a monthly total of Rs.3,350, or 13½ per cent., and the exchange benefits calculated on this sum are 13.1 per cent., or a total rise of 26.6 per cent.

20. I may add that in calculating the emoluments of the various Services which have a junior and senior scale, I have followed the generally accepted method of adding together the first eight years of the junior scale and the 9th to the 23rd year of the senior scale.

APPOINTMENTS ABOVE THE TIME-SCALE.

21. My British colleagues, with whom I am in agreement, propose to give to the Commissioner as well as to all officers in all departments above the time-scale whose emoluments are not fixed by statute the same advantage as will accrue in respect of sterling exchange benefits to the senior officers on the time-scale. This is the equivalent of their being allowed to remit Rs.400 out of their ordinary pay at 2s. to the rupee. It is equal to a rupee equivalent of Rs.200 a month. (Rs.4,800 a year = £480 as compared with £320, a benefit of £160 per annum = Rs.2,400 = Rs.200 a month at the rate of 1s. 4d.) This proposal, though consonant with the lower degree of relief to which I have assented as a part of the agreed scheme, is naturally not in accord with the enlarged scheme which I have, with their approval, put forward as a desirable one if later on financial conditions should improve sufficiently to warrant a more liberal measure of relief, and all the subsequent observations on the subject of appointments above the time-scale in all the services must be regarded as part of the latter scheme, and not as indicating an intention on my part to resile from my acceptance of the proposal of my British colleagues.

INDIAN CIVIL SERVICE.

22. Commissioners receive Rs.3,000 a month. It was a reasonable sum some years ago, but if it is treated as basic pay it is obviously inadequate by comparison with the highest pay and exchange benefits of the senior Collector. That officer will receive, under my scheme, in rupees Rs.2,600 a month, of which, if he is married, he will be able to convert Rs.350 into sterling at 2s. to the rupee, a benefit equivalent to Rs.175 a month when the current rate of exchange is 1s. 4d., and if he has children being educated in Europe another Rs.87½ a month—on further remittance equal to half his overseas pay. In other words, unless similar benefits are given to the Commissioner, he will draw Rs.3,000 as against Rs.2,862½ a month, representing the total emoluments of the senior married Collector—a paltry addition of Rs.137½ a month, while an Indian brother officer not in receipt of overseas pay would have his pay raised on his appointment to a Commissionership from Rs.2,250 a month to Rs. 3,000, or by Rs.750 a month.

I propose to recognise the special position of the Commissioner by fixing his pay at Rs.3,250, a rate which was, indeed, suggested by the Government of India. I prefer this to the device of a sumptuary allowance which has been recommended in some quarters. A scheme of sumptuary allowances would be very difficult to adjust in practice. Although it is possible to differentiate extremes, a place that is very expensive from a place that is by comparison cheap, there are so many intermediate degrees of expensiveness that if a few places be selected as carrying a sumptuary allowance there would be constant claims for such allowances to be extended from this division to that which might be difficult to resist. It is far better, therefore, to make an addition to the pay, recognising that a Commissioner has social obligations which involve upon him rather higher expenditure than falls upon the Head of a Department. Disparity between the Indian promoted from Rs.2,250 to Rs.3,250, and his British colleague promoted from Rs.2,600 to Rs.3,250 will be large, but it will be a long time before Indian members of the Indian Civil Service not in receipt of overseas pay will reach the rank of Commissioner, and it is clear that the Commissioner should be given the same exchange benefits as the Collector, even though none of his pay is shown as overseas pay.

23. As regards the other appointments above the time-scale, e.g., Chief Secretary, Member of Board of Revenue, Financial Commissioner and, on the judicial side, Judicial Commissioners, Additional Judicial Commissioners and Senior Judges, I do not, with one exception, suggest any increase in the basic pay. But all these officers should receive exchange

remittance benefits at the maximum rate if they are qualified for that by marriage or by having children under education in Europe. The one exception to which I have referred above is that of the Judicial Commissioner. If he presides over a Court (including himself) of three or more Judges, he should certainly be paid the pay of a Puisne Judge of a High Court. Now that Chief Courts have disappeared from India it may no longer be worth while to revive them, but the Judicial Commissioners of the Central Provinces and Berar, of Oudh, and Sind should certainly be paid Rs.4,000 a month, and receive the exchange remittance benefits to which they are entitled.

As regards High Court Judges, my British colleagues have excluded them from remittance benefits on the ground that as their remuneration is fixed by Statute, no such benefits can legally be given to them. In this belief I have concurred in this proposal; but in the scheme which I have submitted I would not exclude them unless the law forbids.

INDIAN MEDICAL SERVICE.

24. The appointments above the time-scale, or distinct from it, are numerous and the pay was recently fixed; but they should carry the remittance privilege that is common to all. The Lieutenant-Colonels on the selected list goes up to Rs.2,200 under my proposals, and I do not propose to alter the basic pay of these appointments. All of them, if married, will receive the equivalent of Rs.175 a month, and those with children being educated in Europe the equivalent of Rs.262½ with exchange at 1s. 4d.

OTHER DEPARTMENTAL SERVICES.

25. These differ *inter se* according as they contain lower administrative posts, or selection grades, or both. The former appointments exist in the Police (Deputy Inspectors-General), in the Forests (Conservators) and in the Public Works (Superintending Engineers), while the Police have a selection grade besides; the Indian Educational Service a junior and senior selection grade; and the Indian Agricultural Service and Indian Veterinary Service a junior selection grade. The junior selection grades in the Indian Educational Service, and those of the Indian Agricultural Service and the Indian Veterinary Service will, under my scheme, be merged in the time-scale.

26. For the Police I propose a selection grade of—

Basic Pay.		Overseas Pay.	Total.
Rs.	Rs.	Rs.	Rs.
1,600	350		1,950

or Rs.200 above the time-scale. In the case of the Indian Service of Engineers and the Indian Forest Service, where there are more Superintending Engineers and Conservators than there are Deputy Inspectors-General in the Police, there is no similar selection grade above the time-scale. For all these lower administrative posts, which are now paid at Rs.1,750-100-2,150, I would substitute a fixed pay of Rs.2,200. It will be Rs.250 above the selection pay of a senior Superintendent of Police and Rs.450 above the top of the ordinary time-scale. It will also be the same as that of a Lieutenant-Colonel, Indian Medical Service, on the selected list. These appointments must necessarily carry the same remittance benefits as are enjoyed by the officers at the top of the time-scale.

27. As regards the higher selection grade of the Indian Educational Service the present scale is—

Basic.		Overseas Pay.	Total.
Rs.	Rs.	Rs.	Rs.
1,550	250		1,800
1,650	250		1,900
1,750	250		2,000

The rising of the overseas pay to Rs.350 will raise this scale to Rs.2,100 maximum. As the incumbents of the posts do not, as a matter of fact, hold more responsible charges, this increase should be sufficient. It will, of course, carry the remittance benefits when the officer is married or has children being educated in Europe.

28. I do not know any reason why the Indian Agricultural Service and the Indian Veterinary Service should not have been given a similar senior time-scale though the appointments on it may be fewer in proportion to the smaller strength of these Services. I think they should now receive the same benefit.

29. I note here that the absorption of the junior selection grade in the time-scale in the case of these three Services has the effect of a slight reduction in the basic pay. But I can see no reason why the Indian incumbent of these posts should be better paid than senior officers of the other Services.

HEADS OF DEPARTMENTS.

Police.

30. The Commissioners of Police, Bombay and Calcutta, receive salaries of Rs.2,000-100-2,500. As the pay of Deputy Inspectors-General is raised in my scheme they should certainly receive initial pay at least as high. But these posts are of great responsibility, and I consider them to be deserving of a fixed pay of Rs.2,500, with full exchange remittance privileges. The Commissioner of Police, Rangoon, should be paid as a Deputy Inspector-General and with the same exchange privileges.

Inspectors-General are paid—

	Rs.	Rs.	Rs.
7	on	2,500-125-	3,000.
1	on	2,250-125-	2,750.
2	on	2,250-125-	2,500.

I would give them their maximum as fixed pay, with full remittance privileges. I do not consider that their social obligations are as heavy as those of a Commissioner of a Division, otherwise I would have recommended them in the seven largest Provinces the same pay as I have recommended for a Commissioner.

INDIAN SERVICE OF ENGINEERS AND INDIAN FOREST SERVICE.

31. Chief Engineers are paid at present Rs.2,750-125-3,000 and Chief Conservators Rs.2,500-125-2,750. I would give both these Heads of Departments a fixed pay of Rs.3,000, with full remittance privileges when qualified. They are very important services and the prizes should not differ *inter se*.

INDIAN EDUCATIONAL SERVICE.

32. The pay of Directors of Public Instruction was liberally increased at the last revision. There are now—

	Rs.	Rs.	Rs.
3	on	2,500-100-	3,000.
4	on	2,250-100-	2,750.
1	on	2,000-100-	2,500.
1	on	1,750-	50-2,000.
1	on	1,500-	50-1,750.

In the case of the first eight I would give fixed pay at their present maximum rates. In the case of the other two with reference to the time-scale and the selection grade as it would be revised under my scheme, the lowest possible pay is Rs.2,200 the same as that proposed for Deputy Inspectors-General of Police, Superintending Engineers and Conservators of Forests, with whom they may properly rank.

INDIAN AGRICULTURAL SERVICE.

33. The Director of Agriculture controls a smaller superior and inferior staff than the Heads of the other Departments mentioned, but his present pay of Rs.2,000, rising by Rs.50 to Rs.2,250, is small. If he is paid the same as a Director of Public Instruction in the smaller Provinces, he will not be overpaid. I recommend a fixed pay of Rs.2,500, with all usual remittance privileges, if qualified.

INDIAN VETERINARY SERVICE.

34. There is no similar Head of Department in the Indian Veterinary Service, but a senior officer called the Veterinary Adviser to the Local Government is given an allowance of Rs.150 a month. There is really no prize appointment in this Service at all. It is impossible for a Veterinary Superintendent holding one of several circles to keep proper supervision over the other circles in addition to managing his own as a sort of "*primus inter pares*." I would fix the pay of a Veterinary Adviser or Chief Veterinary Superintendent at Rs.2,250 in the smaller Provinces as judged by veterinary work, and Rs.2,500 in the larger ones. They will, of course, be entitled on the same grounds to the usual remittance privileges.

35. There are a few special appointments with the Government of India which are held by officers of these Services, e.g., Inspectors-General of Forests, pay Rs.3,250, Agricultural Adviser, pay Rs.2,750. These officers should receive remittance privileges as granted in all supertime-scale appointments. I should very much commend the advisability of the Government of India restoring the appointment of Veterinary Adviser to itself on the same pay and remittance privileges as the Agricultural Adviser.

36. In respect of all the higher posts, the practice of incremental salaries is of comparatively recent introduction; the incremental salary on a time-scale for the ordinary posts which are likely to be held by officers for a large number of years is a necessary device for securing even and regular promotion, but in a high selection post there appears to be nothing to be said in favour of it. There are many cases in which promotion to the Headship of a Department only comes to an officer so late that he is time-expired before he can receive the full pay. It is doubtless more economical for Government, but the practice is not followed in such appointments as those of Commissioners, Financial Commissioners, Secretaries, Members of Boards of Revenue, Judgeships of High Courts and other high judicial appointments, and I do not think that it should be applied in the case of all these Headships of Departments. Even if in some cases the officer is appointed Head of a Department at an earlier age than is usual, it is clear that he must have been very specially selected for the post, and there is no reason why he should not receive the full pay.

37. I have not been able to make any exact estimates of the cost of my scheme of salaries as so many factors enter into the calculation, namely, the relative number of officers at different periods of service, the number of bachelors and childless widowers, the number of Indians and Europeans, but taking the time-scale only the percentage increases in basic pay are inconsiderable (*vide* paragraph 16) and the larger Services receive the least increase.

The present and proposed basic pay of an officer of the Services for 23 years (Police 26 years) is as follows:—

	Present.	Proposed.	Increase.
	Rs.	Rs.	Rs.
Indian Civil Service ..	31,500	31,800	300
Indian Medical Service ..	21,400	21,850	450
Indian Police Service ..	20,650	23,025	2,375
Indian Service of Engineers	20,525	21,450	925
Indian Forest Service ..	19,875	21,450	1,575
Indian Educational Service	20,350	21,450	1,100
Indian Agricultural Service	19,100	21,450	2,350
Indian Veterinary Service			

The increase multiplied by 12 and divided by 23 (Police 26) gives the annual cost of these increases in the various services. The results are:—

	<i>Annual cost per officer of increase in basic pay.</i>
	Rs.
Indian Civil Service	156
Indian Medical Service	234
Indian Police Service	1,134
Indian Service of Engineers	482
Indian Forest Service	821
Indian Educational Service	530
Indian Agricultural Service	} 1,226
Indian Veterinary Service	

The Indian Civil Service and the Indian Medical Service together account for half the total of officers, the Indian Agricultural Service and the Indian Veterinary Service are few in number, and I do not think that the cost to Government of the increase in basic pay of all these services taken together is likely to exceed Rs.600 per annum. I should assume the total cost at 20 lakhs.

38. The average addition to the overseas pay in all the Services for 23 years will be the same, namely, about Rs.1,150 multiplied by 12 = Rs.13,800 in 23 years, an annual average of Rs.600. It is estimated that the cost of the concessions that we have recommended in regard to passages will be Rs.50 a month, or for all entitled Europeans in all the Services, central as well as All-India, Rs.25 lakhs a year. The rupee additions to overseas pay in my scheme will therefore cost the same, for they, too, average out at Rs.50 per mensem.

The exchange concessions in my scheme when at a maximum, namely, when exchange is 1s. 4d add 50 per cent. to the total overseas pay. The total overseas pay (monthly totals) for an officer is Rs.6,150 which, multiplied by 12, equals Rs.73,800 over the 23 years of service included in the time-scale. The average is Rs.3,208 per annum, equals Rs.267 per mensem, and 50 per cent. of this will be Rs.134 per mensem, but 10 per cent. must be deducted for bachelors and childless widowers and a growing percentage for Indian officers in the Service. I doubt whether the concession will cost Government more than Rs.100 monthly for each officer or, say 50 lakhs.

39. The additional concession for officers having children educated in England would be equal to half the cost of the last concession if all officers fell within this category. But with bachelors, childless couples, Indian officers and officers who marry late to be allowed for, the cost of the concession to Government will be much reduced, and also in any case the concession will not be operative until an officer is about 40 years old. I should estimate that 20 lakhs a year would easily cover it.

The rough approximate estimate of my scheme is therefore:—

Increased basic pay of All-India Services only	20 lakhs a year.
Increased overseas pay of all Services	25 " "
Exchange remittance benefit all Services	50 " "
Additions for officers having children being educated in Europe	20 " "

40. These estimates are necessarily rough, and they do not take into consideration the increase in basic pay of the appointments above the time-scale though overseas pay and remittance concessions have been included. But time does not permit of my working out detailed estimates and the officers concerned are not numerous.

PENSIONS.

41. I have very few words to say on the subject. I recognise with regret that it is not possible to give any relief in regard to the pensions of persons already on the retired list, of whom I am one myself. No government can reopen one class of pensions without reopening all, and if any existing pensioners were to be given an increase in his pension on the grounds of increased cost of living, every pensioner in England and India could claim a similar increase no matter when he retired. As regards the pensions of those who retire in future, our report suggests 31st March, 1924, as the determining date.

I am obliged to say that I consider the case of the All-India Services, other than the Indian Civil Service and the Indian Medical Service, as of much greater urgency than the pensions of retired officers of the Indian Civil Service and the Indian Medical Service. The Indian Medical Service pensions are on an army scale, and both these Services have Family Pension Funds which relieve them of serious anxiety for widows and children. The Indian Civil Service have a very special grievance about past contributions paid by them, but, if further retrospective concessions were to be made to them, other retrospective claims would have had to be conceded also. I certainly could not, with a clear conscience, have endorsed the proposal that the Indian Civil Service pensions should be raised to £1,250 as was suggested by some Indian Civil Service Associations unless the concession were accompanied by much larger increases in the pensions of other Services than the Government of India or the Secretary of State are ever likely to consider. The recommendations in our Report appear to me to be very moderate, and the case of these Services for improved pensions is so urgent that I trust that this moderation will ensure their acceptance.

In respect to higher pensions in the Indian Civil Service for some of the highest appointments, I have been content to leave the matter to my colleagues to discuss whether there should be any increase in such pensions, what it should be, and who should benefit by it.

OTHER SERVICES.

42. I have omitted to refer to the Indian Educational Service, Women's Branch, and to the Central Services. The former, of course, is a case by itself. In the Report we have left it to the Government of India to consider, but in connection with my scheme I should like to remark that while I do not consider that the basic pay is too low for Indian ladies in that Service, the overseas pay, Rs.50 per mensem throughout the whole period of service, is a very small recognition of the difference between ladies working in their own country and climate and ladies who have come from England. The reason given for this low figure being fixed is that those ladies were allowed free passages home and back in their service, but if under our recommendations this concession is given to all, this reason will no longer hold good. I would recognise this by raising the overseas pay to Rs.100 the figure which the Report proposes for young bachelor police officers for their first three years of service. If in any rare case a lady in the Indian Educational Service, drawing overseas pay, should be a widow with a child or children to educate in Europe, she should be given the exchange remittance concessions in proportion to her overseas pay, as is proposed in my scheme for men.

43. In respect to the Central Services, I have not had the time nor sufficient material to enable me to examine closely the difficult questions of the differences between them and the All-India Services. The Political Department should be governed by the Indian Civil Service scale. The Departments of Audit and Accounts, the Post Office and Telegraphs (except Telegraph Engineers), are now entirely on an Indian basis, while the Survey of India is complicated by the fact that it contains Royal Engineer and

Indian Army Officers on special scales. Mines are also a very special Department. The Report propose that the overseas and exchange concession recommended for the All-India services should be extended *mutatis mutandis* to officers of European domicile in the Central Services, who had not stopped themselves from such a claim by a declaration that they were statutory natives of India, and were admitted on the basis of Europeans domiciled. Similarly, if my scheme of emoluments in respect of overseas benefits should at any future time be adopted in the case of the All-India Services, it is clear that these benefits could not be refused to the Central Services.

There is, in my opinion, no good reason for differentiating the pay of Geologists, Meteorologists, Archaeologists, Botanists and Zoologists from that of Educational Experts, Forest Officers or Engineers. The standard scale of my scheme would suit the Imperial Customs Service very well, Collectors being super-time scale.

44. There are two Services which are *sui generis*—the Salt and the Opium. The latter is better paid than the former, of which the pay is rather on the scale of a Provincial Service than of an All-India one.

The Salt appears to me to be very poorly paid, having regard to the isolation and bad climate to which its officers are subjected, and I think that the pay of that Service should be levelled up to the highest rate of pay now given to the Provincial Civil Services in the major Provinces. As regards the Opium, the Service is gradually dying out, and the only suggestion that I can make is that the progress of its time-scale should be accelerated. The top pay is equal to the top pay (basic) of the proposed standard scale of my scheme, but it is attained in a much longer period of service—30 years instead of 23.

45. The Ecclesiastical Department differs from all others; it is a purely British Service, and in most respects an Army Service. So far as Civil Chaplains are concerned, I understand that the Metropolitan is negotiating with the Government of India on the future organisation of their status and emoluments. All chaplains in Government service should be given the benefits of passages and exchange remittances which are given to other European servants of Government in respect of that amount of their pay which corresponds to the overseas pay drawn by other Services.

46. The Bengal Pilot Service is also *sui generis* and the consideration of their grievances is clearly a matter for the Bengal Government, if indeed it is not a case which appertains to Port Commissioners who deal with this matter in Rangoon under an Act recently passed in Burma.

47. Lastly, as regards State Railways, the Engineers should clearly be given the same terms as the Officers of the I.S.E. Whether officers of the Traffic and Locomotive Department should be on the same basis as Engineers, is not a question upon which I am prepared to make any recommendations. The practice in this respect on Companies' Railways has no doubt been decided by the relative market value of the officers in question.

(Signed)

REGINALD CRADDOCK.

Dated 30th April, 1924.

TABLE I.—SIR REGINALD CRADDOCK'S SCHEME.

Scale of Pay and Overseas Pay for the Indian Civil Service. (Junior Scale.)

Year of Service.	Approximate Average Age.	Present.*			Proposed.			Increase.		
		Basic Pay.	Overseas Pay.	Total.	Basic Pay.	Overseas Pay.	Total.	Basic Pay.	Overseas Pay.	Total.
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1st	24	450	150	600	450	150	600	Nil	Nil	—
2nd	25	500	150	650	500	150	650	—	Nil	—
3rd	26	550	150	700	550	150	700	—	Nil	—
4th	27	600	150	750	650	150	800	50	Nil	50
5th	28	650	150	800	650	150	800	—	—	—
6th	29	700	150	850	750	150	900	50	Nil	50
7th	30	750	150	900	750	250	1,000	Nil	100	100
8th	31	800	200	1,000	800	250	1,050	Nil	50	50
9th	32	900	200	1,100	900	250	1,150	Nil	50	50
10th	33	1,000	200	1,200	1,000	250	1,250	Nil	50	50
11th	34	1,100	200	1,300	1,100	300	1,400	Nil	100	100
12th	35	1,200	250	1,450	1,200	300	1,500	Nil	50	50
13th	36	1,300	250	1,550	1,300	300	1,600	Nil	50	50
14th	37	1,300	250	1,550	1,300	300	1,600	Nil	50	50
15th	38	1,350	250	1,600	1,350	300	1,650	Nil	50	50
Total—Years 1 to 8.. ..	..	5,000	1,250	6,250	5,100	1,400	6,500	100	150	250
Years 9 to 15 .. ..	..	8,150	1,600	9,750	8,150	2,000	10,150	Nil	400	400
Total—1 to 15 .. ..	..	13,150	2,850	16,000	13,250	3,400	16,650	100	550	650

TABLE II.—SIR REGINALD CRADDOCK'S SCHEME.
Scale of Pay for the Indian Civil Service. (Senior Scale.)

Year of Service.	Approximate Average Age.	Present.			Proposed.			Increase.		
		Basic Pay.	Overseas Pay.	Total.	Basic Pay.	Overseas Pay.	Total.	Basic Pay.	Overseas Pay.	Total.
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
5th	28	1,000	150	1,150	1,000	150	1,150	—	Nil	Nil
6th	29	1,050	150	1,200	1,100	150	1,250	50	Nil	50
7th	30	1,100	150	1,250	1,100	250	1,350	Nil	100	100
8th	31	1,150	200	1,350	1,150	250	1,400	Nil	50	50
9th	32	1,200	200	1,400	1,200	250	1,450	Nil	50	50
10th	33	1,275	200	1,475	1,300	250	1,550	25	50	75
11th	34	1,350	200	1,550	1,350	300	1,650	Nil	100	100
12th	35	1,425	250	1,675	1,450	300	1,750	25	50	75
13th	36	1,500	250	1,750	1,500	300	1,800	Nil	50	50
14th	37	1,600	250	1,850	1,600	300	1,900	Nil	50	50
15th	38	1,700	250	1,950	1,700	300	2,000	Nil	50	50
16th	39	1,800	250	2,050	1,800	300	2,100	Nil	50	50
17th	40	1,900	250	2,150	1,900	350	2,250	Nil	100	100
18th	41	2,000	250	2,250	2,000	350	2,350	Nil	100	100
19th	42	2,050	250	2,300	2,150	350	2,500	100	100	200
20th	43	2,100	250	2,350	2,150	350	2,500	50	100	150
21st	44	2,150	250	2,400	2,150	350	2,500	Nil	100	100
22nd	45	2,200	250	2,450	2,200	350	2,550	Nil	100	100
23rd	46	2,250	250	2,500	2,250	350	2,600	Nil	100	100
Total—Years 9 to 23 ..		26,500	3,600	30,100	26,700	4,750	31,450	200	1,150	1,350
Junior Scale, Years 1 to 8..		5,000	1,250	6,250	5,100	1,400	6,500	100	150	250
Senior Scale, Years 9 to 23..		26,500	3,600	30,100	26,700	4,750	31,450	200	1,150	1,350
Total Time-scale ..		31,500	4,850	36,350	31,800	6,150	37,950	300	1,300	1,600

TABLE III.—SIR REGINALD CRADDOCK'S SCHEME .

Showing Present and Proposed Pay of the Indian Medical Service.

Years of Service.	Approximate Average Ages.	Rank.	Present.			Proposed.			Increase.			Compared standard proposed for other All-India Services, except I.C.S.		
			Basic Pay.	Over-seas Pay.	Total.	Basic Pay.	Over-seas Pay.	Total.	Basic Pay.	Over-seas Pay.	Total.			
1st year	24	Lt.	Rs. 500	Rs. 150	Rs. 650	Rs. 500	Rs. 150	Rs. 650	—	—	—	Rs. 400	Rs. 150	Rs. 550
2nd "	25	"	500	150	650	500	150	650	—	—	—	450	150	600
3rd "	26	"	500	150	650	500	150	650	—	—	—	500	150	650
4th "	27	Capt.	650	150	800	650	150	800	—	—	—	550	150	700
5th "	28	"	650	150	800	650	150	800	—	—	—	600	150	750
6th "	29	"	650	150	800	650	150	800	—	—	—	650	150	800
7th "	30	"	750	200	950	750	250	1,000	—	50	50	650	250	900
8th "	31	"	750	200	950	750	250	1,000	—	50	50	700	250	950
9th "	32	"	750	200	950	750	250	1,000	—	50	50	750	250	1,000
10th "	33	"	850	200	1,050	850	250	1,100	—	50	50	800	250	1,050
11th "	34	"	850	200	1,050	850	300	1,150	—	100	100	850	300	1,150
12th "	35	"	850	200	1,050	850	300	1,150	—	100	100	850	300	1,150
13th "	36	Major	950	250	1,200	1,050	300	1,350	100	50	150	1,050	300	1,350
14th "	37	"	950	250	1,200	1,050	300	1,350	100	50	150	1,050	300	1,350
15th "	38	"	950	250	1,200	1,100	300	1,400	150	50	200	1,100	300	1,400
16th "	39	"	1,100	250	1,350	1,100	300	1,400	Nil	50	50	1,100	300	1,400
17th "	40	"	1,100	250	1,350	1,150	350	1,500	50	100	150	1,150	350	1,500
18th "	41	"	1,100	250	1,350	1,150	350	1,500	50	100	150	1,150	350	1,500
19th "	42	"	1,250	250	1,500	1,250	350	1,600	Nil	100	100	1,200	350	1,550
20th "	43	"	1,250	250	1,500	1,250	350	1,600	Nil	100	100	1,250	350	1,600
21st "	44	Lt.-Col.	1,500	250	1,750	1,500	350	1,850	Nil	100	100	1,300	350	1,650
22nd "	45	"	1,500	250	1,750	1,500	350	1,850*	Nil	100	100	1,350	350	1,700
23rd "	46	"	1,500	250	1,750	1,500	350	1,850	Nil	100	100	1,400	350	1,750

TABLE IV.—SIR REGINALD CRADDOCK'S SCHEME.

Standard Scale proposed for all the All-Indian Services except Indian Civil Service and Indian Medical Service and excluding first three years of the Police.

Year of Service.		Approximate Average Age.	Junior Scale.			Senior Scale.		
All Services.	Police.		Basic Pay.	Overseas Pay.	Total.	Basic Pay.	Overseas Pay.	Total.
			Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1st	4th	24	400	150	550	—	—	—
2nd	5th	25	450	150	600	—	—	—
3rd	6th	26	500	150	650	650	150	800
4th	7th	27	550	150	700	700	150	850
5th	8th	28	600	150	750	750	150	900
6th	9th	29	650	150	800	800	150	950
7th	10th	30	650	250	900	800	250	1,050
8th	11th	31	700	250	950	850	250	1,100
9th	12th	32	750	250	1,000	900	250	1,150
10th	13th	33	800	250	1,050	950	250	1,200
11th	14th	34	850	300	1,150	1,000	300	1,300
12th	15th	35	850	300	1,150	1,000	300	1,300
13th	16th	36	900	300	1,200	1,050	300	1,350
14th	17th	37	900	300	1,200	1,050	300	1,350
15th	18th	38	950	300	1,250	1,100	300	1,400
16th	19th	39	—	—	—	1,100	300	1,400
17th	20th	40	—	—	—	1,150	350	1,500
18th	21st	41	—	—	—	1,150	350	1,500
19th	22nd	42	—	—	—	1,200	350	1,550
20th	23rd	43	—	—	—	1,250	350	1,600
21st	24th	44	—	—	—	1,300	350	1,650
22nd	25th	45	—	—	—	1,350	350	1,700
23rd	26th	46	—	—	—	1,400	350	1,750
<i>Totals of Monthly Pay.</i>								
			Basic Pay.	Overseas Pay.	Total.			
Junior Scale, 1st to 8th years ..			4,500	1,400	5,900			
Senior Scale, 9th to 23rd years ..			16,950	4,750	21,700			
Total 23 years to top of time Scale ..			21,450	6,150	27,600			

TABLE V.—SIR REGINALD CRADDOCK'S SCHEME

Showing the exchange remittance advantages to married officers in all Services alike in each year, when the current rate of exchange is at 1s. 4d. to the rupee.

Years of Service.		Approximate Average Age.	Average Pay.	Sterling Rate per annum.		Annual Benefit to Officers.	Additional benefit if officer has children being educated in Europe.
All Services	Police			Yrs.	Rs.			At 1s. 4d.	At 2s.
1st	4th	24	150	120	180	60	—
2nd	5th	25	150	120	180	60	—
3rd	6th	26	150	120	180	60	—
4th	7th	27	150	120	180	60	—
5th	8th	28	150	120	180	60	30
6th	9th	29	150	120	180	60	30
7th	10th	30	250	200	300	100	50
8th	11th	31	250	200	300	100	50
9th	12th	32	250	200	300	100	50
10th	13th	33	250	200	300	100	50
11th	14th	34	300	240	360	120	60
12th	15th	35	300	240	360	120	60
13th	16th	36	300	240	360	120	60
14th	17th	37	300	240	360	120	60
15th	18th	38	300	240	360	120	60
16th	19th	39	300	240	360	120	60
17th	20th	40	350	280	420	140	70
18th	21st	41	350	280	420	140	70
19th	22nd	42	350	280	420	140	70
20th	23rd	43	350	280	420	140	70
21st	24th	44	350	280	420	140	70
22nd	25th	45	350	280	420	140	70
23rd	26th	46	350	280	420	140	70

Note.—The overseas pay in rupees is based on the assumption that the officer will marry at age 30, that his family will begin to cost him heavy extra expenditure at age 34, and that at age 40 his expenses in Europe for the education of his family will rise. If officers are married earlier, they will have to face lower overseas pay, and it is not proposed to pay them larger exchange remittance advantages on this account.

The rupee equivalents, at 1s. 4d., of the remittance advantages are :—

At £60 per annum	..	Rs.75 per annum	} With 50 per cent. more if children are being educated in Europe.
.. £100 ..	..	Rs.125 ..
.. £120 ..	..	Rs.150 ..
.. £140 ..	..	Rs.175 ..

TABLE VI.—SIR REGINALD CRADDOCK'S SCHEME.

Showing the Police Scale for the first three years and the application of the Standard Rate to the Indian Police Service (Junior Scale) from the 4th year.

Year of Service.	Approximate Average Age.	Present Pay.			Standard Rate Proposed.			Increase.		
		Basic.	Overseas.	Total.	Basic.	Overseas.	Total.	Basic.	Overseas.	Total.
1st	21	Rs. 325	Rs. 125	Rs. 450	Rs. 350	Rs. 125	Rs. 475	Rs. 25	Rs. Nil	Rs. 25
2nd	22	350	125	475	375	125	500	25	Nil	25
3rd	23	375	125	500	400	125	525	25	Nil	25
4th	24	400	150	550	400	150	550	Nil	Nil *	Nil
5th	25	425	150	575	450	150	600	25	Nil	25
6th	26	450	150	600	500	150	650	50	Nil	50
7th	27	475	150	625	550	150	700	75	Nil	75
8th	28	500	150	650	600	150	750	100	Nil	100
9th	29	525	200	725	650	150	800	125	-50	75
10th	30	550	200	750	650	250	900	100	+50	150
11th	31	575	200	775	700	250	950	125	50	175
12th	32	600	250	850	750	250	1,000	150	Nil	150
13th	33	625	250	875	800	250	1,050	175	Nil	175
14th	34	650	250	900	850	300	1,150	200	50	250
15th	35	675	250	925	850	300	1,150	175	50	225
Total—Years 1 to 8 .. ..	..	3,300	1,125	4,425	3,625	1,125	4,750	325	Nil	325
Years 1 to 15 .. ..	..	7,500	2,725	10,225	8,875	2,875	11,750	1,375	150	1,525

Note.—From the 4th year the Police come on to the standard for all Services,

TABLE VII.—SIR REGINALD CRADDOCK'S SCHEME
Showing the application of the Standard Scale to the Indian Police Service (Senior Scale) from the 4th year onwards.

Year of Service.	Approximate Average Age.	Present Pay.			Standard Rate Proposed.			Increase.		
		Basic.	Overseas.	Total.	Basic.	Overseas.	Total.	Basic.	Overseas.	Total.
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
6th	26	600	150	750	650	150	800	50	Nil	50
7th	27	625	150	775	700	150	850	75	Nil	75
8th	28	650	150	800	750	150	900	100	Nil	100
9th	29	675	200	875	800	150	950	125	—50	75
10th	30	700	200	900	800	250	1,050	100	50	150
11th	31	725	200	925	850	250	1,100	125	50	175
12th	32	750	250	1,000	900	250	1,150	150	—	150
13th	33	775	250	1,025	950	250	1,200	175	—	175
14th	34	800	250	1,050	1,000	300	1,300	200	50	250
15th	35	825	250	1,075	1,000	300	1,300	175	50	225
16th	36	850	250	1,100	1,050	300	1,350	200	50	250
17th	37	900	250	1,150	1,050	300	1,350	150	50	200
18th	38	950	250	1,200	1,100	300	1,400	150	50	200
19th	39	1,000	250	1,250	1,100	300	1,400	100	50	150
20th	40	1,050	250	1,300	1,150	350	1,500	100	100	200
21st	41	1,100	250	1,350	1,150	350	1,500	50	100	150
22nd	42	1,150	250	1,400	1,200	350	1,550	50	100	150
23rd	43	1,200	250	1,450	1,250	350	1,600	50	100	150
24th	44	1,250	250	1,500	1,300	350	1,650	50	100	150
25th	45	1,300	250	1,550	1,350	350	1,700	50	100	150
26th	46	1,350	250	1,600	1,400	350	1,750	50	100	150
Junior Scale, Years 1-8 ..		3,300	1,125	4,425	3,625	1,125	4,750	325	Nil	325
Senior Scale, Years 9-26 ..		17,350	4,350	21,700	19,400	5,400	24,800	2,050	1,050	3,100
Total Years 1-26 ..		20,650	5,475	26,125	23,025	6,525	29,550	2,375	1,050	3,425

TABLE VIII.—SIR REGINALD CRADDOCK'S SCHEME

Showing the application of the Standard Scale to the Indian Service of Engineers (Junior Scale).

Year of Service.	Approximate Average Age.	Present Pay.				Proposed Pay.			Increase.		
		Basic.	Technical.	Overseas.	Total.	Basic, absorbing Technical.	Overseas.	Total.	Basic.	Overseas.	Total.
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1st ..	24	300	75	150	525	400	150	550	25	Nil	25
2nd ..	25	350	75	150	575	450	150	600	25	Nil	25
3rd ..	26	400	75	150	625	500	150	650	25	Nil	25
4th ..	27	450	75	150	675	550	150	700	25	Nil	25
5th ..	28	450	75	150	675	600	150	750	75	Nil	75
6th ..	29	500	75	150	725	650	150	800	75	Nil	75
7th ..	30	550	75	150	775	650	250	900	25	100	125
8th ..	31	550	75	200	825	700	250	950	75	50	125
9th ..	32	600	75	200	875	750	250	1,000	75	50	125
10th ..	33	650	75	200	925	800	250	1,050	75	50	125
11th ..	34	700	75	250	1,025	850	300	1,150	75	50	125
12th ..	35	750	75	250	1,075	850	300	1,150	25	50	75
13th ..	36	800	75	250	1,125	900	300	1,200	25	50	75
14th ..	37	850	75	250	1,175	900	300	1,200	— 25	50	25
15th ..	38	900	75	250	1,225	950	300	1,250	— 25	50	25
Total years 1 to 8		4,150		1,250	5,400	4,500	1,400	5,900	350	150	500
Total years 1 to 15		9,925		2,900	12,825	10,500	3,400	13,900	575	500	13,900

TABLE IX.—SIR REGINALD CRADDOCK'S SCHEME.

Showing the application of the Standard Scale to the Indian Service of Engineers (Senior Scale).

Year of Service.	Approximate Average Age.	Present Pay.				Proposed Pay.			Increase.		
		Basic.	Technical.	Overseas.	Total.	Basic absorbing Technical.	Overseas.	Total.	Basic.	Overseas.	Total.
3rd ..	26	Rs. 500	Rs. 75	Rs. 150	Rs. 725	Rs. 650	Rs. 150	Rs. 800	Rs. 75	Rs. Nil	Rs. 75
4th ..	27	550	75	150	775	700	150	850	75	Nil	75
5th ..	28	550	75	150	775	750	150	900	125	Nil	125
6th ..	29	600	75	150	825	800	150	950	125	Nil	125
7th ..	30	650	75	150	875	800	250	1,050	75	100	175
8th ..	31	650	75	200	925	850	250	1,100	125	50	175
9th ..	32	700	75	200	975	900	250	1,150	125	50	175
10th ..	33	750	75	200	1,025	950	250	1,200	125	50	175
11th ..	34	800	75	250	1,125	1,000	300	1,300	125	50	175
12th ..	35	850	75	250	1,175	1,000	300	1,300	75	50	125
13th ..	36	900	75	250	1,225	1,050	300	1,350	75	50	125
14th ..	37	950	75	250	1,275	1,050	300	1,350	25	50	75
15th ..	38	950	75	250	1,275	1,100	300	1,400	75	50	125
16th ..	39	1,000	75	250	1,325	1,100	300	1,400	25	50	75
17th ..	40	1,050	75	250	1,375	1,150	350	1,500	25	100	125
18th ..	41	1,100	75	250	1,425	1,150	350	1,500	-25	100	75
19th ..	42	1,200	75	250	1,525	1,200	350	1,550	-75	100	25
20th ..	43	1,200	75	250	1,525	1,250	350	1,600	-25	100	75
21st ..	44	1,250	75	250	1,575	1,300	350	1,650	-25	100	75
22nd ..	45	1,250	75	250	1,575	1,350	350	1,700	25	100	125
23rd ..	46	1,300	75	250	1,625	1,400	350	1,750	25	100	125
Junior Scale— Years 1 to 8		4,150		1,250	5,400	4,500	1,400	5,900	350	150	500
Senior Scale— Years 9 to 23		16,375		3,650	20,025	16,950	4,750	21,700	575	1,100	1,675
Total—Years 1 to 23		20,525		4,900	25,425	21,450	6,150	27,600	925	1,250	2,175

Note.—There is a slight reduction in the years 18, 19, 20 and 21 in the proposed basic pay as compared with the present combined basic and technical pay, but there is no reduction in total pay, including overseas, and as the officers who do not draw overseas pay will very rarely draw technical pay, the individual loss must occur in very few cases. If such there be the difficulty can be met by personal pay.

TABLE X.—SIR REGINALD CRADDOCK'S SCHEME

Showing the application of the proposed Standard Scale to the Indian Forest Service.

Year of Service.	Approximate Average Age.	Present.			Proposed.			Increase.		
		Basic.	Overseas.	Total.	Basic.	Overseas.	Total.	Basic.	Overseas.	Total.
1st	24	Rs. 325	Rs. 150	Rs. 475	Rs. 400	Rs. 150	Rs. 550	Rs. 75	Rs. Nil	Rs. 75
2nd	25	375	150	525	450	150	600	75	Nil	75
3rd	26	425	150	575	500	150	650	75	Nil	75
4th	27	475	150	625	550	150	700	75	Nil	75
5th	28	525	150	675	600	150	750	75	Nil	75
6th	29	575	150	725	650	150	800	75	Nil	75
7th	30	625	200	825	650	250	900	25	50	75
8th	31	675	200	875	700	250	950	25	50	75
9th	32	725	200	925	900	250	1,150	175	50	225
10th	33	800	250	1,050	950	250	1,200	150	Nil	150
11th	34	850	250	1,100	1,000	300	1,300	150	50	200
12th	35	900	250	1,150	1,000	300	1,300	100	50	150
13th	36	900	250	1,150	1,050	300	1,350	150	50	200
14th	37	950	250	1,200	1,050	300	1,350	100	50	150
15th	38	1,000	250	1,250	1,100	300	1,400	100	50	150
16th	39	1,050	250	1,300	1,100	300	1,400	50	50	100
17th	40	1,100	250	1,350	1,150	350	1,500	50	100	150
18th	41	1,150	250	1,400	1,150	350	1,500	Nil	100	100
19th	42	1,200	250	1,450	1,200	350	1,550	Nil	100	100
20th	43	1,250	250	1,500	1,250	350	1,600	Nil	100	100
21st	44	1,300	250	1,550	1,300	350	1,650	Nil	100	100
22nd	45	1,350	250	1,600	1,350	350	1,700	Nil	100	100
23rd	46	1,350	250	1,600	1,400	350	1,750	50	100	150
Total for 23 years	..	19,875	5,000	24,875	21,450	6,150	27,600	1,575	1,150	2,725

TABLE XI.—SIR REGINALD CRADDOCK'S SCHEME

Showing the application of the proposed Standard Scale to the Indian Educational Service.

Years of Service.	Approximate Average Age.	Present Pay.			Proposed Pay.			Increase.		
		Basic.	Overseas.	Total.	Basic.	Overseas.	Total.	Basic.	Overseas.	Total.
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1st	24	400	150	550	400	150	550	Nil	Nil	Nil
2nd	25	450	150	600	450	150	600	Nil	Nil	Nil
3rd	26	500	150	650	500	150	650	Nil	Nil	Nil
4th	27	550	150	700	550	150	700	Nil	Nil	Nil
5th	28	600	150	750	600	150	750	Nil	Nil	Nil
6th	29	600	200	800	650	150	800	50	—50	Nil
7th	30	650	200	850	650	250	900	Nil	50	50
8th	31	700	200	900	700	250	950	Nil	50	50
9th	32	750	250	1,000	900	250	1,150	150	Nil	150
10th	33	800	250	1,050	950	250	1,200	150	Nil	150
11th	34	850	250	1,100	1,000	300	1,300	150	50	200
12th	35	900	250	1,150	1,000	300	1,300	100	50	150
13th	36	950	250	1,200	1,050	300	1,350	100	50	150
14th	37	1,000	250	1,250	1,050	300	1,350	50	50	100
15th	38	1,000	250	1,250	1,100	300	1,400	100	50	150
16th	39	1,050	250	1,300	1,100	300	1,400	50	50	100
17th	40	1,100	250	1,350	1,150	350	1,500	50	100	150
18th	41	1,150	250	1,400	1,150	350	1,500	Nil	100	100
19th	42	1,200	250	1,450	1,200	350	1,550	Nil	100	100
20th	43	1,250	250	1,500	1,250	350	1,600	Nil	100	100
21st	44	1,250	250	1,500	1,300	350	1,650	50	100	150
22nd	45	1,300	250	1,550	1,350	350	1,700	50	100	150
23rd	46	1,350	250	1,600	1,400	350	1,750	50	100	150
Total, 1 to 23 years	..	20,350	5,100	25,450	21,450	6,150	27,600	1,100	1,050	2,150

TABLE XII.—SIR REGINALD CRADDOCK'S SCHEME

Showing the application of the proposed Standard Scale to the Indian Agricultural and Indian Veterinary Services.

Year of Service.	Approximate Average Age.	Present Pay.			Proposed Pay.			Increase.		
		Basic.	Overseas.	Total.	Basic.	Overseas.	Total.	Basic.	Overseas.	Total.
1st	24	Rs. 350	Rs. 150	Rs. 500	Rs. 400	Rs. 150	Rs. 550	Rs. 50	Rs. Nil	Rs. 50
2nd	25	400	150	550	450	150	600	50	Nil	50
3rd	26	450	150	600	500	150	650	50	Nil	50
4th	27	500	150	650	550	150	700	50	Nil	50
5th	28	550	150	700	600	150	750	50	Nil	50
6th	29	550	200	750	650	150	800	100	- 50	50
7th	30	600	200	800	650	250	900	50	50	100
8th	31	650	200	850	700	250	950	50	50	100
9th	32	700	250	950	900	250	1,150	200	Nil	200
10th	33	750	250	1,000	950	250	1,200	200	Nil	200
11th	34	800	250	1,050	1,000	300	1,300	200	50	250
12th	35	800	250	1,050	1,000	300	1,300	200	50	250
13th	36	850	250	1,100	1,050	300	1,350	200	50	250
14th	37	900	250	1,150	1,050	300	1,350	150	50	200
15th	38	950	250	1,200	1,100	300	1,400	150	50	200
16th	39	1,000	250	1,250	1,100	300	1,400	100	50	150
17th	40	1,050	250	1,300	1,150	350	1,500	100	100	200
18th	41	1,100	250	1,350	1,150	350	1,500	50	100	150
19th	42	1,150	250	1,400	1,200	350	1,550	50	100	150
20th	43	1,200	250	1,450	1,250	350	1,600	50	100	150
21st	44	1,250	250	1,500	1,300	350	1,650	50	100	150
22nd	45	1,250	250	1,500	1,350	350	1,700	100	100	200
23rd	46	1,300	250	1,550	1,400	350	1,750	100	100	200
Total for years 1 to 23	..	18,100	5,100	24,200	21,450	6,150	27,600	2,350	1,050	3,400

MINUTE BY MR. PETRIE.

1. The preparation of the Report now published has been governed by two main considerations, each of peculiar weight and urgency. The first of these, in my opinion, was the pressing need of the early announcement of some measure of relief to the Public Services in India; and the second, the insistent demand of even moderate Indian public opinion for an advance in the Indianisation of the Services more in keeping with the liberalised character of the reformed constitution. These special conditions under which it was compiled have left their impress on the form and character of the Report itself. For a public document of its class and importance it is comparatively brief, while it supports by only a limited amount of reasons and arguments the decisions that have been arrived at by the Commission. I fully shared with the other members of the Commission the view they took of the great importance attaching to the two considerations I have mentioned, and I can think of no commensurate advantage that could have been gained by the later publication of a more voluminous and more lengthily reasoned document.

2. Another special feature of our Report is that the evidence on which our conclusions are based will not be made available either to the public or to the members of the services themselves. The guarantee of confidence under which a considerable portion of our evidence was obtained has naturally precluded publication. This brevity of the Report, and the absence of published evidence, combine to present a special opportunity—or, it may be, a special temptation—for individual commissioners to make clear in separate notes the chief reasons and considerations that have weighed with them in coming to the various decisions and recommendations to which they have given their assent. Speaking for myself, as being the only British member of the Commission who is still on the active list of any of the Indian Services, I feel that there is perhaps a peculiarly strong case for my attempting to describe how some of the problems dealt with presented themselves to the mind of one who is himself liable to be affected by the recommendations of the Commission, in so far as they may ultimately be adopted. Even if what I have to say should prove of little public value, it may not be entirely devoid of interest for some of my fellow-members of the various Public Services in India.

3. Apart from improvements in the conditions of the Services, a subject which I shall come to later, the two principal questions facing the Commission were those of Indianisation and Provincialisation. These are each of the first rank in magnitude and importance, and, it may be added, in complexity. Their difficulty can perhaps best be gauged from the extraordinary diversity of opinion expressed in regard to them. It should be remembered, too, that such conflicting evidence was not that of laymen, amateurs, or irresponsibles, but came from witnesses—both official and non-official—who are prominent in Indian public life at the present time, who have been actively concerned in the working of the new system, and who have been anxiously devoting their minds to the solution of these very problems.

4. In its terms of reference the Royal Commission was charged with examining the above two questions "in view of the experience now gained of the operation of the system of Government established in India by the Government of India Act," due regard being had to the necessity of maintaining a standard of administration in conformity with the responsibilities of the Crown and to the declared policy of Parliament in respect of the increasing association of Indians in every branch of the Public Service. As it so happened, the Royal Commission was in India at a time when the working of the new system of Government, inasmuch as it was developing along lines widely different from those originally foreseen, was beginning to cause grave anxiety to many both in England and in India. The

elections of December, 1923, had brought into prominence and power the new Swarajist element, which was bent not on co-operation, but on obstruction and wreck. Their strength varied from Province to Province, but their aims everywhere were the same. In one Province at least they had brought the working of the new Constitution to a standstill, in another they had seriously threatened it, while in the Central Legislature they were able to obstruct completely the passage of the budget. These results had not, of course, been achieved during the earlier months the Commission spent in India, but they were not unforeseen, as the Swarajists had made no secret of their plans, and had secured such success at the polls as placed them in a position to go beyond mere threats. Such happenings, therefore, actual or impending, could hardly have been absent from the minds of most of the witnesses who appeared before us, or have failed to colour their evidence. Added to this, even the old "moderate" Legislatures had been regarded in many quarters as not always too friendly or helpful in matters affecting the interests of the Services, so that under the new régime chastisement by scorpions might be expected where only whips had been used before. I trust that in this brief presentment of the special circumstances of the time I have said nothing that is controversial. My only object is to give a bare outline of the situation which led men to arrive at the widely divergent views they expressed to us as to the working of the system of Government established by the Government of India Act.

5. It did not lighten the task of the Commission that the witnesses who held these sharply conflicting opinions did not readily fall, or could not readily be sub-divided, into distinct classes or categories representing this or that shade of opinion. Official evidence showed as little agreement as non-official, so that it would be almost impossible to say that a particular view was held by the official element or by this or that section of the public. Extreme views on both sides, both the definitely retrograde and the frankly hostile, may safely be left out of account. But between these extremes there was offered an immense variety of opinion that was neither intemperately expressed nor unintelligibly supported. On the one side we had evidence that the Reforms had gone far enough and that there should be no further changes until the effect of those already introduced had become more fully apparent; there was no case for further Indianisation or of advance on the present percentages of recruitment except at the sacrifice of efficiency and, possibly, of safety also. Other witnesses were prepared to work up cautiously to a higher percentage within a specified period, although some even of this persuasion regarded increased Indianisation as inevitable rather than desirable. As against all this, we were told that the pace must be considerably accelerated, that provincial autonomy should come at once, with a large devolution to the Government of India of the powers of control now exercised by the Secretary of State; it would then be left to the new autonomous governments to settle the question of Indianisation in their own way, by employing such British element as they considered their Public Services required. A concomitant of such an advance was to be an immediate large discontinuance, or a total cessation, of European recruitment.

6. It may give further point to what I have said as to the extraordinary diversity of views that we found to exist, if I mention that sometimes the identically same course was urged upon us for reasons that were diametrically different. Thus, a further constitutional advance was occasionally justified on the grounds that the Reforms had worked well and that their chief obstacle to success lay in their own limitations, as witnessed by the chafing of Indian ministers and of Indian public opinion at the unreality in control which the existing system imposed; on other occasions an advance was supported not on the score of justification, but because it was a logical and inevitable, though regrettable, consequence of the Reforms Act, and because it would be well to make a further concession forthwith instead of having it ultimately extorted by the painful and embittering

process of unceasing agitation. For equally dissimilar reasons was a total cessation of British recruitment recommended to us, some witnesses proposing this course in the interests of more speedy Indianisation, while others represented that it was unfair, if not dishonest, to bring out further British recruits to India, where there was no demand for them and no means of adequately safeguarding their future career or prospects. If I have made myself clear I need not further labour the fact that in the matter of Indianisation it would have been impossible for the Commission to select any single one of the solutions suggested and to say "this is the right course because it is supported by the most responsible and the most enlightened opinion, both English and Indian." Seldom, I venture to say, can the old adage *tot homines tot sententiae* have been more fully and more embarrassingly illustrated.

7. To speak the truth, the great dissimilarity of the views we listened to was somewhat baffling and even bewildering. It seemed, therefore (at least so it seemed to me), that the only way to approach the question was to steer boldly by the one or two pinnacle-points of certainty that appeared to break the surface of this flood of doubts. The Royal Commission, as I read its terms of reference, was not required to overhaul the Indian constitution or even to examine the possibility of introducing scarcely less sweeping changes. The performance of this important task has been separately provided for in the Government of India Act. This fact, then, automatically answers both those who recommended a virtual retrocession from the present position, as well as those who asked for changes which it would require fresh legislation to introduce. A second fact is that the best and most responsible evidence, both English and Indian, does not go to support the view that India is yet in a position to dispense with the assistance of English officials of the right type in working out her political future. Yet another fact is that Indian public opinion—even moderate opinion—is unanimous that the Reforms, in their present state of development, have been too niggardly in the matter of the Indianisation of the Public Services, that the administrative machine, for many years to come, will be preponderatingly British in character, and that Indians are prevented, within any reasonable time, from demonstrating their fitness for a larger share in the management of India's affairs. The Commission's recommendations, it seems to me, had to be guided by these elementary but fundamental facts. The changes that have been proposed are far-reaching, although they do not break with the present system. The marked advance in Indian recruitment will be made evenly and scientifically and will not impair the structure of the Services. This result could scarcely have been avoided if we had adopted the proposal for a total cessation of European recruitment, apart from the risk that if the stream of young Englishmen who now join the Indian Services were once diverted elsewhere, there is little likelihood that it could again be made at any given moment to flow in the direction of India just because Indian conditions happened to make this desirable. Assuming again that the future of India can best be worked out by the joint effort and the mutual co-operation of English and Indian, the changes proposed do incontestably open up a field in which each can labour on terms of equality with the other and develop that sense of real comradeship which will be inspired by their being knit together by the bond of joint endeavour in the accomplishment of a great and honourable purpose. If this spirit of brotherhood in India's service is attainable as between Englishmen and Indians, the new condition of things forecasted in the Report will give the fullest opportunity for its creation and development; if it is not attained, it will mean that the problems of Indian administration will have to be approached from a radically different standpoint. The Commission's recommendations, if adopted, should give its deathblow to the widely held belief that Britain is determined to retain in perpetuity the "steel-frame" of the Services as an instrument for India's perpetual

subjection. With the majority of the services provincialised and the few remaining All-India Services recruited on a basis of equality, no one can longer truthfully affirm that the Reforms have given India the semblance, but not the substance, of power or denied her sons a fair and reasonable opportunity of showing the stuff they are made of. The new recruitment proposals seem to me to leave no room for anyone, other than avowed enemies to the whole British connection, a further excuse for failure to co-operate; they provide greatly enlarged scope for the present and promise further opportunity for the future. It may well be that some will consider that the present proposed advance in Indianisation goes too far. It is certain, however, that things cannot remain as they are at present, and as a high authority put it to us "nothing can be more prejudicial to the smooth and efficient working of any Service than the history of the last three years." Petty, niggling concessions can be of no avail; extorted frequently under pressure of agitation, they are usually overdue before they are granted and so tend to stimulate, rather than to allay, discontent. The only wise course seems to be to take such a courageous step forward as will convince all who are open to conviction of the reality of the Reforms and of the honesty of purpose behind them. The Reforms are the law of the land and it is not unreasonable for Indians to ask that they should be put to a fair test without further delay—a delay which can produce only further friction and estrangement. Of all the courses I can see open, the best and the fairest seems to be to give the Reforms early and full opportunity to succeed or to fail. They are not divinely inspired, and, like other human institutions, they must stand or fall by the degree of success or failure attending their working. On every ground it seems better that the experiment should be brought to an issue within a reasonably short period of time, while the old and tried British element in the Services is still present in sufficient strength to provide a very real safeguard. Further delay and a further continuance of existing conditions will not only cause further depletion of their ranks, but will make the surviving British remnant so unpopular as to rob it largely of its usefulness in averting any dangers and risks that may lie ahead. For these reasons, the increase in Indianisation we have recommended constitutes a just, an expedient, and, as far as one can see in all the circumstances, a safe advance.

8. After what I have said on Indianisation, I feel that I can dispose in a few words of the question of Provincialisation. The reasons for a further advance are, in their essence, the same. We had much evidence as to the dissatisfaction of Ministers at their lack of control over members of the All-India Services operating in the transferred field, although it is only fair to add that we heard little or no complaint from Ministers themselves. Yet the desire of the Provincial administrations to be completely master in their own house flows so naturally from the Reform Scheme itself, and is so legitimate and reasonable, that it cannot well be withstood. Once the transfer of certain subjects had taken place, any limitation in control was bound to lead to an unnatural and difficult position. It is with great regret that I have agreed to the disappearance of several of the All-India Services, with their high traditions and splendid records of devotion to duty, but the inexorable logic of the situation points relentlessly in that direction. It would be too much to suppose that, especially at the outset, mistakes will not be made, or that efficiency will not suffer, but on the transferred side it has been entrusted to local administrators to make their own bed, and they will doubtless in time be taught to make one that they can comfortably lie on.

9. The last point on which I desire to touch, is the present condition—especially the frame of mind and temper—of the public services in India. The question is a highly important one, and it is only right that more information should be made public regarding it than appears in the body of the Report. It has been no secret that for some time past the condition

of the Services has not been altogether satisfactory, for the appointment of the present Commission was virtually a public admission of this fact. From all the Services we had very full and frank statements as to their material grievances, their peculiar difficulties under the new system of Government, and their apprehensions for the future. On all these points the Service representatives were heard at great length and with the utmost patience. The effect of this evidence left little room for doubt that there was everywhere great dissatisfaction and unrest, and that a consideration of Service grievances had not come a moment too soon if the Services themselves were not to be disintegrated by premature retirements and a steadily diminishing flow of suitable recruits. It is not incorrect, I am satisfied, to say that the main grievance set and kept in the forefront was the financial one, although it does not admit of doubt that there are others of a less material and more subtle character. The financial burden might have been borne more cheerfully if the other conditions of life and service had been pleasanter, and these latter disabilities might have bulked less largely if financial conditions had been easier; but the coincident pressure of the two has combined to create feelings of deep discontent which are good neither for the Services themselves nor for the public which they serve.

10. Of the financial aspect of Service grievances, I need say but little, as the relief recommended in the Report is in itself an indication that the Services have made good their case. The only question is the degree of relief to be granted. Even before my appointment to the Royal Commission, I had special opportunities and facilities for acquainting myself at first hand with the conditions under which the average officer lived in most of the Provinces of India. I know that these conditions, especially in the case of married officers with families, have been productive of such discomfort and hardship as are barely distinguishable from actual poverty, and that money worries and indebtedness have everywhere been sapping keenness and efficiency. The amount of relief proposed has been arrived at with a careful eye on the present financial condition of India. If it is as much as the country can at present afford to pay, it is certainly no more than the needs of the Services demand; if more prosperous times lie ahead, I would gladly see it increased. Of the measure of relief we recommend, one thing at least I can say with certainty—it should be given in full, and it should be given at once.

11. The other grievances of the Services, inasmuch as they are largely psychological in character, are not quite so easy to deal with. The Services themselves ascribe them to the new system of Government, the introduction of which, they say, has created difficulty and unpleasantness in their present position and insecurity as to their future. Service feeling in these matters was analysed at some length in many of the representations made to us. The Services themselves have unanimously declared that they are not antagonistic to the Reforms in principle or to the Indianisation of the Services which is their natural concomitant. There is no reason whatever to distrust this evidence, supported as it has been by the fullest practical proof. But the average civil officer in India is not much concerned with politics, and all that he asks is that his conditions of service should be just and equitable, and that he should be able to work in reasonable comfort and security with that enthusiasm which has always been the mainspring of his efficiency. At the present moment he undoubtedly feels that he has been made too much a pawn in the political game, that his grievances are not sympathetically considered, that his rights are not adequately safeguarded, that his work is often unfairly attacked, and that his official superiors are too backward in championing him against his traducers. He sees grants of money that are necessary for the proper carrying on of his work refused by the Legislature for reasons that are totally unconnected with the public interest, and he feels that efficiency is no longer aimed at or cared for. He listens to an unceasing and unrestrained vilification of

the British Government and, as one of its agents, he cannot but feel that some of these shafts are aimed at himself as well. The vocal section of the Indian public seems not only not to want him, but to impair his power to serve the dumb masses to whom he feels his duty lies, and to whom he is still acceptable. All these disheartening influences were more specially and powerfully operative during the dark days of non-co-operation from which the country has just emerged, and they have left a possibly indelible impression on the minds of many of the officials who were most fully exposed to their play. But, apart from this, the general impression one gets is that the Services have had the heart taken out of them, and that they have, at any rate temporarily, lost some of their faith in their own and their country's mission. A significant and an ominous sign is that few Indian officials are now permitting their sons to enter the Indian Services, severing in many cases a long and honourable family connection with the country of their adoption. It has been stated before us that this is to be ascribed to a deliberate propaganda of boycott launched by the Services to the end that their own grievances may be the more readily listened to and redressed. Nothing could be more fallacious. It is undoubted that widespread dissatisfaction among the Indian Services will react, consciously or unconsciously, on the supply of recruits in England. But, as a matter of fact, the average Indian official is a poor man; comparatively few of his class have any private means, and those who are completely independent are a negligible quantity. To such men a future for their sons is a matter of very grave concern, and it is inconceivable that they would for any but the most cogent reasons dissuade their boys from following an Indian career. To me it is abundantly clear that something must be done to arrest the process of "dry-rot" that has already gone too far. If it is not, India will before long find herself without English officials at all, or employing a class of official whom she would be better without. All the evidence we received from Indian witnesses is very clear and definite that only the best type of Englishman is wanted, an inferior article will not do.

12. In my attempt to diagnose the *malaise*, or distemper now so generally prevalent among the Indian Services, I feel that I have at the same time sufficiently indicated the directions in which a remedy is to be found. It is above all necessary that their undoubted financial difficulties should be speedily remedied, for the restoration of tone and spirit will be a longer and a more difficult process. But the Services will be in better heart to take the rough with the smooth if their lot is so improved as to lift from their shoulders the burden of incessant worry about their own private affairs. It is most desirable that a real effort should be made, and made quickly, to remedy their more immediate grievances. For several years past they have been constantly petitioning for some amelioration, which has been no less constantly refused. Such a state of affairs can only be demoralizing to the Services themselves, apart from the fact that repeated rebuffs must seriously undermine their confidence in the Government they serve.

13. The views that I have expressed in this note are strictly personal. Their purpose is purely explanatory, and they are not meant to detract from, or to whittle down, the unqualified agreement I have expressed with the main recommendations in the Report.

(Signed)

D. PETRIE.

Dated 30th April,
1924.

INDEX TO REPORT.

(The references are to paragraph numbers.)

- Abolition of Posts, and loss of prospects, Compensation for. *See* Compensation.
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