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**THE MONETARY PROBLEMS  
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# THE MONETARY PROBLEMS OF INDIA

BY

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BANKING IN INDIA"

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**TO**  
**THE MEMORY OF MY MOTHER**

## PREFACE

THE aim of this book is to deal with the monetary problems of India as they have arisen in recent years, particularly during 1926-32. While literature on the subject is in plenty, books on the recent phases of Indian currency and credit are not many. Happily, a mass of new material has been made available by the recent Banking Inquiry in every province in India. The very length of the material (20,000 pages in print), however, makes the task of its analysis rather difficult. Moreover, since the Banking Inquiry itself new changes—in fact, crises—have overtaken the money markets of the world, including India.

Thus the subject of Indian monetary problems is today of unusual importance and difficulty. As in my work on *Indigenous Banking in India*, of the imperfections of my present venture I am fully sensible. My only justification for its presentation is that it is the first attempt to survey the monetary problems of the country in their recent phases made by one who has had unusual opportunities to study them from various angles during the last decade, and that it may form the basis of abler and more elaborate studies.

For the opportunities to which I refer in the preceding paragraph I feel specially indebted to Sir Basil P. Blackett, Sir Purshotamdas Thakurdas, the Honourable Mr. E. A. H. Blunt and Mr. Manohar Lal. To Professor T. E. Gregory, Sir Bhupendra Nath Mitra, Dr. (Mrs.) Vera Anstey, Dr. Gilbert Slater, Mr. R. A. Gray and Mrs. A. Henderson I must express my great obligation for reading the whole or part of the manuscript and for many helpful suggestions.

My thanks are also due to the obliging Librarians of the Punjab University and Public Libraries, Lahore, the London School of Economics Library, the Library of the Office of the High Commissioner for India and of the British Museum Reading Room for the readiness with which they met all my demands, and to Messrs. Sumer Chand Jain and Shadi Lal Bhalla for their assistance in the construction of graphs.

L. C. JAIN.

UNIVERSITY OF THE PUNJAB,  
LAHORE,  
*January, 1933.*



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## APPENDIX I

### ACT NO. IV OF 1927

[PASSED BY THE INDIAN LEGISLATURE.]

(Received the assent of the Governor General on the 26th  
March, 1927.)

*An Act further to amend the Indian Coinage Act, 1906, and the Indian Paper Currency Act, 1923, for certain purposes, and to lay upon the Governor General in Council certain obligations in regard to the purchase of gold and the sale of gold or sterling.*

WHEREAS it is expedient further to amend the Indian Coinage Act, 1906, and the Indian Paper Currency Act, 1923, for certain purposes, and to lay upon the Governor-General in Council certain obligations in regard to the purchase of gold and the sale of gold or sterling; It is hereby enacted as follows:—

1. (1) This Act may be called the Currency Act, 1927.

(2) It extends to the whole of British India, including British Baluchistan and the Sonthal Parganas.

(3) It shall come into force on the 1st day of April, 1927.

2. In the Indian Coinage Act, 1906,—

(a) for section XI the following section shall be substituted, namely:—

' XI. Gold coins, whether coined at His Majesty's Royal Mint or at any Mint established in pursuance of a proclamation of His Majesty as a branch of His Majesty's Royal Mint, shall not be legal tender in British India in payment or on account, but such coins shall be received at any Government currency office and, at any time after the 30th day of September, 1927, at any

Government Treasury other than a Sub-Treasury, at the bullion value of such coins calculated at the rate of 8·47512 grains troy of fine gold per rupee'; and

- (6) the word 'and' at the end of clause (d) of sub-section (2) of section 21 and clause (e) of that sub-section shall be omitted.

3. In the Indian Paper Currency Act, 1923

- (a) to section 2 after the words 'in this behalf' the following shall be added, namely:—

'and

"gold bullion" includes gold coin';

- (b) in clause (a) of section 11, the words 'or in gold coin which is legal tender under the Indian Coinage Act, 1906,' shall be omitted;

- (c) in section 13—

(i) the words 'for gold coin which is not legal tender under the Indian Coinage Act, 1906, or' shall be omitted; and

(ii) for the figures '11·30016' the figures '8·47512' shall be substituted;

- (d) in section 18—

(i) in sub-section (4), the words 'sovereigns, half-sovereigns' and the words 'coin and' shall be omitted; and

(ii) in clause (a) of sub-section (8), for the figures '11·30016' the figures '8·47512' shall be substituted;

- (e) in section 19—

(i) in sub-section (3), the words 'sovereigns, half-sovereigns' shall be omitted, and, in the *Explanation*, after the word 'sub-section,' the following words and figures shall be inserted, namely:—

'gold bullion shall be reckoned at the rate of one rupee for 8·47512 grains troy of fine gold, and'; and

- (ii) in sub-section (5), the words ' coin or ' and the word ' coin,' where it occurs for the second time, shall be omitted.

4. Any person who offers for sale to the Governor-General in Council at the office of the Master of the Mint, Bombay, or at any other place notified in this behalf by the Governor-General in Council in the *Gazette of India*, gold in the form of bars containing not less than forty tolas of fine gold shall, subject to such conditions as the Governor-General in Council may, by notification in the *Gazette of India*, prescribe, be entitled to receive payment for the same at the rate of twenty-one rupees, three annas and ten pies per tola of fine gold.

5. (1) The Governor-General in Council shall sell, to any person who makes a demand in that behalf at the office of the Controller of the Currency, Calcutta, or of the Deputy Controller of the Currency, Bombay, and pays the purchase price in legal tender currency, gold for delivery at the Bombay Mint at the rate of twenty-one rupees, three annas and ten pies per tola of fine gold or, at the option of the Controller or the Deputy Controller, as the case may be, sterling for immediate delivery in London at an equivalent rate:

Provided that no person shall be entitled to demand an amount of gold or sterling of less value than that of 1,065 tolas of fine gold.

(2) For the purpose of determining the equivalent rate applicable to the sale of sterling under this section, twenty-one rupees, three annas and ten pies shall be deemed to be equivalent to such sum in sterling as is required to purchase one tola of fine gold in London at the rate at which the Bank of England is bound by law to give sterling in exchange for gold, after deduction therefrom of an amount representing the normal cost per tola of transferring gold bullion in bulk from Bombay to London, including interest on its value during transit.

(3) The Governor-General in Council shall, from time to time, determine the equivalent rate in accordance with the provisions of sub-section (2), and shall notify the rate so determined in the *Gazette of India*.

## APPENDIX II

### ORDINANCE NO. VII. OF 1931.

THE following is the full text of the Ordinance to repeal the Currency Ordinance, 1931, and to regulate sale of gold or sterling under section 5 of the Currency Act, 1927:—

Whereas it is expedient to repeal the Currency Ordinance, 1931, and to resume and regulate sales of gold or sterling under section 5 of the Currency Act, 1927; It is hereby enacted as follows:—

1. *Short Title.* This Ordinance may be called the Gold and Sterling Sales Regulation Ordinance, 1931.

2. *Repeal of Ordinance VI. of 1931.* The Currency Ordinance, 1931, is hereby repealed.

3. *Restrictions on Sales of Gold or Sterling.* (1) Notwithstanding anything contained in section 5 of the Currency Act, 1927 (hereinafter referred to as 'the said section'), sales of gold or sterling under the said section—

- (a) Shall be completed only by the Imperial Bank of India (hereinafter referred to as 'The Bank'), at its local head offices in Calcutta and Bombay;
- (b) Shall be made only to branches in Calcutta or Bombay of banks for the time being recognised in this behalf by the Governor-General in Council;
- (c) Shall be made for financing—
  - (i) normal trade requirements, excluding any requirement falling under clause (d);
  - (ii) contracts completed before the 21st September, 1931, and
  - (iii) reasonable personal or domestic purposes; and

(d) Shall not be made for—

- (i) financing imports of gold or silver coin or bullion, or
- (ii) liquidating the oversold exchange position of any bank in respect of any month subsequent to the month in which the demand for gold or sterling is made.

(2) Where any demand is made under the said section to the Controller of the Currency at Calcutta or to the Deputy Controller of the Currency at Bombay, it shall be forwarded forthwith to the local head office of the Bank.

4. *Power to make Rules regulating Sales.* The Governor-General in Council may, by notification in the *Gazette of India*, make rules—

- (a) prescribing conditions as to the amounts of gold or sterling which may be sold to any recognised bank, and the procedure regulating the making of demands for gold or sterling;
- (b) prescribing the authorities which may determine if the conditions imposed upon sales by or under this Ordinance have been satisfied;
- (c) authorising a Managing Governor of the Bank to suspend the recognition of any bank provisionally, for a period not exceeding seven days, and regulating the exercise of such authority; and
- (d) generally, to carry out the purposes of this Ordinance.

5. *Bar of Jurisdiction.* No suit or other proceeding shall lie in any Court in respect of anything done or in good faith intended to be done under this Ordinance or the rules made thereunder.

## NOTIFICATION

No. D. 6604—F.

*Simla, the 24th September, 1931.*

IN exercise of the powers conferred by section 4 of the Gold and Sterling Sales Regulation Ordinance, 1931 (Ord. VII. of 1931), the Governor-General in Council is pleased to make the following rules:—

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1. These Rules may be called the Gold and Sterling Sales Regulation Rules, 1931.

2. An amount of gold or sterling of less value than £25,000 shall not be sold to any recognised bank.

3. Demands for gold or sterling may be made at the Local Head Offices of the Bank in Calcutta and Bombay.

4. The Secretary of the Local Board of the Bank at Calcutta or Bombay, as the case may be, shall be the authority to decide if any demand satisfies the conditions imposed by the Ordinance and those Rules; and his decision shall be final.

5. (1) A Managing Governor of the Bank may call upon any recognised bank to satisfy him—

(a) that it has not been selling foreign exchange for any purpose other than those specified in clause (c) of subsection (1) of section 3 of the Ordinance, or for any purpose specified in clause (d) of that subsection, and

(b) that it has been using all its purchases of foreign exchange before making a demand on the Bank for gold or sterling.

(2) If such Managing Governor is not so satisfied, he may suspend the recognition of the bank for a period not exceeding seven days.

(3) A Managing Governor shall make a report immediately to the Governor-General in Council of any action taken by him under this rule.



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"You have dealt with your complex subject in a most interesting manner, and it is specially satisfactory to have so full a discussion of the administration, of village organisation, of religion, and of life in general. I note your very careful discussion of the legends centring in Bhūtāḷa Pāṇḍya. Your views seem very convincing, and should leave little room for dispute. I am glad also to see the new evidence adduced in favour of a date for Madhva rather later than that adopted by Sir R. G. Bhandarkar. There is much to be said for the later date. I have read with interest your view of the Kannaḍa language in the Greek fragment. I confess I still feel very dubious as to the possibility of the preservation of intelligible Kanarese in such an authority. It is very difficult to see what value it would have for spectators of the play. It is clear that your work is being carried on in a scientific spirit, and that when completed it will be an indispensable authority on the history of Karnataka." (*Dr. A. B. Keith, Edinburgh*).

"It is a very valuable and painstaking work, which throws much light on a rather neglected corner of history." (*Dr. L. D. Barnett, London*).

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