

A RESERVE BANK FOR INDIA AND THE MONEY MARKET

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'History of Indian Currency and Exchange.'

CALCUTTA:

BUTTERWORTH & CO. (INDIA), LTD., 6, HASTINGS STREET.

MADRAS BRANCH: 317, LINGA CHETTY STREET.

BOMBAY BRANCH: JEHANGIR WADIA BUILDING, ESPLANADE ROAD.

LONDON:

BUTTERWORTH & CO., (Publishers) LTD,
BELL YARD, TEMPLE BAR.

TORONTO (Canada):

BUTTERWORTH & CO.,
(Publishers), LTD.

SYDNEY:

BUTTERWORTH & CO.,
(Australia), LTD.

WELLINGTON (N. Z.):

BUTTERWORTH & CO.,
(Australia), LTD.

1931

PRINTED AT THE
BASEL MISSION PRESS MANGALORE

PREFACE

A reproach is on us. India, we are told, is one of the very few countries which have not yet mobilized their banking under the shadow of a Reserve Bank. This book is an attempt to show why the reproach is to be borne by us, and how it could be shaken off. An effort was made a few years ago to establish a Reserve Bank in India, but was allowed to die out. It is to be revived again and, to base it on a solid foundation, various Banking Enquiry Committees have been instituted by the Government in the Provinces so that not merely will the defects of the dismembered banking structure of India be detected but the real brick and mortar needed to construct the Reserve Bank may be prepared.

To the majority of people the subject of Reserve Banking (or Central Banking) appears too technical and complicated a matter to awaken a desire for its comprehension. This book is an attempt to set forth for the *general reader* in *non-technical* language, except where technicalities are unavoidable, *the fundamental principles and actual working of a Central Bank and also what the Bank should be in the case of India*. Its design is, therefore, twofold : (1) It explains how in actual practice a Reserve Bank performs its functions and what benefits accrue therefrom. In explaining them, the help of simple diagrams has been found necessary, however much their inclusion may expose one to the charge of using the class-room method, which is but natural to the writer. This is particularly the case on the subject of "A Bill Market for India". (2) It also considers the factors special to India and the kind of structure that should be superimposed on the banking

system of India. This latter part is an attempt to show how near it should be to the ideal of an American critic who said, "The Central Bank that India needs must be *sui generis* ; it must be as Indian as the Ganges".

The subject-matter is developed step by step and the chapters are closely inter-related. Any attempt, therefore, to pick out a Chapter independently for perusal and to form one's judgment on it, would be doing injustice to the book.

Although the system of note issue for India is discussed at length, the standard of currency dealt with is the same as recommended by the Royal Commission on Currency and Finance (1926). Whether India requires a gold currency for her economic greatness and whether it could be established successfully, should also have been discussed from the practical point of view. But in order to keep strictly to the principal object of this book and to avoid making it cumbrous (as the matter might probably take up a volume by itself) the subject is left to be dealt with separately.

The sources of the book, a list of which is appended, include in particular a huge list of Memoranda submitted by the various business and banking institutions and authorities on banking in India on the Reserve Bank of India Bill. In the collection of these, the writer's special thanks are due to the Secretary of the Indian Merchants' Chamber, Bombay. The information regarding many Central Banks was received either directly by correspondence with the authorities or through the Consuls for certain countries in India. The writer owes a personal debt to all these gentlemen and, in particular, to the Governor and Secretary of the Commonwealth Bank of Australia, the

Consul-Governor for Germany, the American Consul, the Consul for Japan, the Consul-General for Belgium, the Consul for Czechoslovakia, the Consul for the Netherlands, the Consul-General for Italy and the French Trade Commissioner in India, Burma and Ceylon. Acknowledgment of indebtedness is also made to the Manager of the Bombay Provincial Co-operative Bank for the information concerning agricultural finance in India. The help which was given by three students, Messrs. J. A. Husain, V. V. Prayagi and R. W. Ghate in preparing diagrams cannot but be acknowledged gratefully by the writer.

Nagpur :
March 7th, 1930.

B. E. D.

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EXPLANATION OF FIGURES

As a guide to the reading of the figures it may be mentioned that :—

100,000 rupees = 1 *Lakh* rupees = £ 7,500.
(at the present rate of exchange.)

100 lakhs (10 million rupees) = 1 *Crore* rupees = £ 750,000.
(at the present rate of exchange.)