

**The Ráyat**  
and the  
**Statutory**  
**Commission**

To  
THE RÁYAT

All these put their trust in their hands ;  
And each becometh wise in his own work.  
Without these shall not a city be inhabited,  
And men shall not sojourn nor walk up and down therein.  
They shall not be sought for in the council of the people,  
And in the assembly they shall not mount on high ;  
They shall not sit on the seat of the judge,  
And they shall not understand the covenant of judgement:  
Neither shall they declare instruction and judgement ;  
And where parables are they shall not be found.  
But they will maintain the fabric of the world ;  
And in the handywork of their craft is their prayer.

*Book of Ecclesiastics.*

## Introduction.

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WHEN Ruskin said "There is no wealth but Life" he uttered the greatest of economic truths. For money is of value only if it can be turned into food, or what Adam Smith calls the necessaries and conveniences of life; and food is of value only as it is turned into flesh and blood, or Life.

Life, or active labour, being the real wealth of a nation is, therefore, the real base of credit. Money, whether gold or silver or paper, is only the instrument for setting men to work, or for exchanging the products of men's work.

Life being the productive power, as well as the base of credit, it follows that the only sound and scientific banking system is one which will supply as much money as may be required to keep every healthy man fully employed on useful work such as the raising of food, the construction of wells and canals, the building of houses, the spinning and weaving of cloth, the making of roads, etc. Money ought not to be issued or lent in excess of such requirements, plus what is required for the genuine exchange and distribution of goods; because if it is so issued or lent in excess it

causes inflation of the currency, and raises prices against the poor, as well as the rich.

One serious defect in western banking is that, it does not consider sufficiently the purpose to which money lent is applied. The question it considers is, will the money return safely with a profit to the bank? Whether it be used for the production of food, or for providing a more abundant life for the people, or for war and the destruction of life, or for speculation or greyhound racing, is immaterial to western banking, provided the money returns with a profit.

If India is to have a sound and scientific banking system it must be one which will employ all the labour of the country productively, and none of it wastefully; and such a system cannot be based on gold, for there is not enough gold for the purpose. It must be broad based on the organised labour of the people; then every healthy man can be turned on to constructive and productive work, and the country will reach its maximum of production and Life.

Money lent to the Indian producer should be issued on easy terms; because, if he has to pay fifty per cent. instead of five, for the money he borrows, he has no inducement to do his best, as the profit of his labour will pass to another; and the production and the Life of the country will suffer.

The Reserve Bank Act has gone, but no one need shed a salt tear over it. The Assembly did well to

reject it, not so much for what it contained as for what it omitted : it omitted India. The banking system which it proposed to establish, being based on a limited supply of gold, was of no use to a country like India which requires a practically unlimited supply of money to employ fully its practically unlimited supply of labour.

Agriculture is, and always will be, the chief industry of India, but the rejected bill made practically no provision for financing the great industry of the country or for increasing the food supply of the people. It was a traders' bill, not a producers'. The mercantile community, which is already provided with banking facilities, was to be given still greater facilities, while the great producing masses of the people, who have no banking facilities at all, were to be left without them. The Reserve Bank, with its 235 crores of rupees, was to be reserved for the trader, while the rāyat was to be reserved for the *Mahajan* or money-lender. Why this lop-sided bill should have been pushed to the front before Lord Linlithgow's Royal Agricultural Commission had made its report and told us what agriculture requires in the way of finance, it is difficult to understand.

The bank for which India has waited so long and so wearily is an All India Bank, one which will finance all India, and not leave out the one man by whose labour all others subsist ; for upon the welfare of the

rāyat depends the welfare of India. When the rāyat prospers all India will prosper ; and it is because the rāyat is poor that India is poor. Will the new Finance Minister be able to grasp, and have the wisdom to act on, this fundamental truth, which is the A.B.C. of Indian finance ?

The case for a central gold reserve has gone. Mr. McKenna, Chairman of the Midland Bank, and ex-Chancellor of the British Exchequer, gave it away in his annual speech a short time ago, when he said that, "*even in a gold standard country, gold need no longer be the controlling factor in the supply of money,*" and "*central banks possess the power to regulate the supply of money irrespective of gold movements.*"

After fooling themselves and the world since 1844 with the belief that gold was the one indispensable base of credit, the banks now turn round and tell us they are quite able to regulate the supply of money without it. Europe's gold having, for the most part, crossed the Atlantic, the bankers now make a virtue of necessity, saying they require it no longer.

Having lost their gold, the bankers now tell us that the real function of a bank—its primary task—is to control the general price level, by regulating the supply of credit or money. . A more fantastic claim it would be hard to imagine. There is no such thing as a general price level. Prices are individual not general ; and

the banks can no more control the price of wheat or rice or coal or anything else than they can fulfil their promise to repay their customers' deposits in gold, on demand. According to the *Daily Telegraph*, Mr. Mellon, Secretary of the American Treasury, "quite recently has agreed that the Federal Reserve System cannot control prices, for credit is only one of the many factors in the equation." We also read in the *Times* of 6th March, that—

"Unemployment in the United States engaged the Senate to-day when Senator Wagner, of New York, introduced resolutions calling for a Federal investigation of the situation which is reflected, as he said, in the growing bread lines, in the larger number of men and women seeking work (about four millions) in the constantly decreasing return for the worker, in a lower standard of living for a large number of the people, and in the huge economic loss."

When a British Chancellor of the Exchequer tells us that gold need no longer be the controlling factor in the supply of money, and when the Secretary of the American Treasury tells us that the Federal Reserve banking system, with all its gold, cannot control prices; and when the same system, which owns half the monetary gold of the world, cannot control trade or prevent unemployment, it is difficult to see what good India is likely to get from a central gold reserve, or a lop-sided Reserve Bank such as that proposed.

The defunct Reserve Bank Act has no case left, and should be left lying where it is.

• The rejection of the projected lop-sided bank has cleared the way for something better ; and that is, a banking system which will finance India, and not only the small trading minority which the defunct bill was designed to finance.

The men for whom a banking system is urgently wanted are the eighty per cent. who live by agriculture, and by whom all others subsist. The Government Co-operative Registrars know better than any one else what the people require in the way of finance, and they should now meet and formulate definite proposals for an All-India Co-operative Banking Corporation, which will link up the Provincial Co-operative Banks into one concern which will finance India, apart from the mercantile community. The latter will be financed as now by the Imperial Bank of India and other sound Joint Stock Banks. But in view of the experience which India has had of banking failures, the formation of additional joint stock banks ought not to be encouraged.

When the All-India Co-operative Banking Corporation has been formed, it and the Imperial Bank might be linked together in a more or less nominal way by each taking a moderate holding of shares in the other, and each having a seat on the Directorate of the other. And a separate Joint Board might form an All-India



Banking Board with access to the Government Reserves. The Government of India would also be represented on the All-India Board, the Provincial Governments being represented on the Provincial Co-operative Banks' Boards.

Thus linked on to the All-India Co-operative Banking Corporation, the Imperial Bank of India would, in effect, be an All-India Bank whose London Office, in consultation with the High Commissioner, could attend to the sale of Council Bills and all other financial business of the Government of India.

It is, however, not much use tinkering with the roof of the Temple unless the foundations are well and truly laid, which they are not. Seven hundred thousand good foundations are wanted for India's 700,000 villages, but only 70,000 have so far been laid, and some of them not too well. Will Government now press on with the laying of the remaining 630,000, and see that they are well and truly laid by a sufficient number of competent builders ; for India dare wait no longer ?

There is now under the consideration of Government a great programme of road development to meet the growing motor traffic, the effect of which will be to bring every Indian village into contact with the outside world. In the speech which I have quoted, Mr. McKenna says that :—

“ Although gold is still the nominal price of most currencies, the real determinant of movement in the

general world level of prices is the purchasing power of the dollar. The conclusion is, therefore, forced upon us that in a very real sense the world is on a dollar standard."

If Mr. McKenna's diagnosis of the situation is correct, the consequences may be very serious indeed for the eighty millions of people who have to buy food. For, as the villages are brought by the motor into touch with the outside world and world prices, the village prices of wheat and rice and food stuffs generally will tend to rise to the world level; and if the world price should be the dollar price, the outlook for the Indian who has to buy food is anything but bright; for the Indian workman drawing twenty-five rupees per month may have to pay for his wheat and rice the same price as the American workman drawing five hundred rupees per month. The outlook for the *blades* *log* is equally gloomy.

But to be forewarned is to be forearmed, and the danger mentioned may be averted if agricultural development is kept well ahead of road and motor development so that the food supply of the country may reach its maximum, and thus prevent prices rising unduly. The maximum of food production is all the more necessary because the population increases, but the land does not.

India claims Dominion status, and will doubtless get it. But it is well to bear in mind that Dominion

status for the entity called India does not mean Dominion status for the individuals who comprise that entity. For example, the Canadian farmer and the Western Australian farmer are given free grants of 160 acres, or a quarter square mile, of virgin soil on which to settle and make comfortable homes and comfortable livings. The Indian farmer has only a five acre patch of impoverished soil, on which to rear his family. Assuming that the recommendations, whatever these may be, of the Royal Agricultural Commission are given effect to in full, and that, as a result, the yield of the five acre patch is doubled, the Indian farmer will still be only one sixteenth as well off as the colonial farmer—or one anna compared with one rupee. I wonder what the Canadian farmer would say if he were asked to make a living for himself and his family, and raise food for the towns and cities besides, from a five acre patch of impoverished land. Dominion status on paper and Dominion status in life are totally different things ; and it is the life that counts. India wants the kernel, not the husk : the substance, not the shadow. Food is more fattening than status.

A weighty volume entitled *Britain's Industrial Future* has just been issued under the auspices of the Liberal Party. The executive Committee responsible for the volume includes the names of Sir John Simon and other distinguished members of the Liberal faith. The closing words of the introductory chapter are these :

“ We believe with a passionate faith that the end of all political and economic action is not the perfecting or the perpetuation of this or that piece of mechanism or organisation, but that individual men and women may have life, and that they may have it more abundantly.”

Well said ; and I have no doubt that Sir John Simon and his colleagues will do their best to transmute this noble sentiment into action when framing the recommendations of the Statutory Commission.

All life, whether agricultural, manufacturing, or official, touchable or untouchable, is sustained by the produce of the field. Therefore, India's impoverished fields must be compelled to yield their maximum of food, if her great and growing population is to keep ahead of want, and of economic and political trouble. And whatever is required for this purpose must be done, and done soon.

D. M. H.

To the RIGHT HONOURABLE

SIR JOHN SIMON, K.C., M.P.

*Chairman of the Indian Statutory Commission.*

SIR,

## The Indian Constitution.

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**"The successful working of popular Government rests not so much on statutes and written constitutions as on the gradual building up of conventions, customs and traditions."** See page 88 of the *Montague-Chelmsford Report*.

As the Prime Minister, in his speech in Parliament, invited every man of goodwill, whether Indian or British, to make his contribution towards the solution of India's constitutional problem, I hereby beg to submit mine. My justification for so doing is the experience derived from 25 years' residence in India, both as a business man, and a landowner in direct touch with the agricultural population who form eighty per cent. of the people. I had, in addition, the experience of having served for a winter session as a business representative on the Viceroy's Council during Lord Curzon's Viceroyalty, and helped to frame the Co-operative

Credit Societies Act which is doing so much to revive and modernise India's ancient village system of Government, and rejuvenate the country.

The enclosed papers, which I have written in criticism of the new Reserve Bank Act now before the Government of India, indicate the type of Constitution which, in my opinion, will best meet India's needs, political, economic, and social, viz., a constitution based on co-operative finance, the foundations of which, as laid by Lord Curzon, rest in the villages of India.

In your letter to your constituents you remarked, very wisely, that there was no intention of forcing upon India a constitution from without. To do so would be unwise. For, to foist upon a country which is already so divided by castes and creeds a constitution which would divide it still more by splitting it up into so many more political parties, would be fatal alike from the Imperial standpoint, and from the still more important standpoint of the welfare of the 320 millions of people who form three-fourths of the British Empire.

The constitution which India wants is one which would be a development of her ancient village confederacy, and this can only be secured by the development of the co-operative movement on a scale sufficient to cover all India.

I cannot here go into the ~~details of the proposed~~ co-operative constitution, nor need it be an elaborate document of paper and ink, but you will find it outlined by the Honourable Mr. P. C. Lyon, late Executive Member of the Government of Bengal, in his address to the Government Co-operative Conference of 1913, a copy of which I annex. The diagram on the back of my All India Bank paper also illustrates its nature.

Anyone who knows India, knows that what Mr. Lyon said, under the heading of Political Philosophy is true, viz., that :

“ If we wish to erect a political edifice that will endure, we must begin, as we are beginning in the case of social and economic edifices, at the foundation rather than with the roof. A representative depends for his importance on the influence and the power of his constituency. A leader can be nothing more than a leader in name unless there is strength and vitality in the party which he leads, and it is from the bottom—from the towns and villages of the interior—that the strength of all expressions of public opinion must be derived.”

Mr. Lyon's views are in accord with the most enlightened Indian opinion to-day. For example, if you will be good enough to read the article in the

accompanying *Searchlight* by Mr. Bipin Chandra Pal, a former member of the Central Legislature, and one of the leading politicians of Bengal, you will find him saying :

“ When India had a free political life, the Hindu State was also fundamentally a federation of self-governing groups or guilds. This being our past history and tradition, and the Hindus being the largest group in the mixed population of modern India, the future national State in India, or what we call Swaraj, must necessarily follow this Federal ideal in building it up. And the unit of this great India Federation must be the village community, revived and reconstructed to meet modern requirements. Here, in these rural groups, comprised either in one large village or in a combination of two or more neighbouring small villages, must be laid the plinth and foundation of our Swaraj or future National State.”

Please also see Mr. Shiva Rao's article, in the same paper, on The Commonwealth of India Bill, in the shaping of which both Hindus and Moham-medans helped. According to this article, the Commonwealth Bill “ above all things insists upon the recognition of the village as the foundation of India's national life.”



Or read the article entitled *Foundations of Swaraj, Rural Reconstruction*, in the same paper, by the Honourable Mr. Ramdas Pantalu, Member of the Council of State. Mr. Pantalu says :

“ It is a man's spirit that is the source of his will. Place a dead weight on a spring, its elasticity and resistance will be gone. It is, therefore, no wonder that our village folk, who form 75 per cent. of the population, and who live in rural India among most depressing surroundings, are not only economically crippled, but are weak, disorganised and disunited. The problem for us to solve, therefore, is, can we achieve freedom for the Motherland without reconstructing our rural life ? I feel no hesitation in saying that, unless we make a religious resolve to employ all the energy, talent and initiative which the nation can command, in the task of village reorganisation, no material or political progress is possible.”

The latest confirmation of the view that, if the superstructure is to last, the foundations of the Indian State must be well and truly laid in the villages is to be found in the speech of Lord Linlithgow, Chairman of the Royal Agricultural Commission, as reported in the *Times* of 6th ult.

Speaking in Burma, towards the end of the Commission's tour, Lord Linlithgow said that :

“ The prosperity of India rests in the main upon her agriculture, and her commerce and her industry are both founded upon that same agriculture. Raise the purchasing power of the rāyat and in one stroke you will give to industry, to manufacture, and to commerce in general an extended field for service, and so for legitimate gain. The prosperity of the factory is linked indissolubly, and to their mutual advantage, with the productivity of the field. Industry requires raw material and a market for finished products. The cultivator sees in a prosperous industrial population an ever-increasing market for the produce that he grows.”

To raise the purchasing power of the rāyat, however, as suggested by Lord Linlithgow, involves the financing of the rāyat ; first, to lift him out of the £450 or £500 millions of debt in which he now lives and dies, and, secondly, to lend him the long and short term credit which he must have if he is to work his small patch of land to the best advantage and become a free and independent man, and India a free and independent nation within the Empire. A Constitution which does not bring healthy financial blood into the dead villages of

India, to destroy the paralysing power of the money lender, will be a dead constitution, an engine without steam, a skeleton without flesh and blood. It is not votes that India wants, but money and the nourishment for soul and body which, in these days, cannot be got without it.

The evidence given before the Royal Agricultural Commission, not by Swarajists, but by the British scientific officers of Government, shows that the greater part of the soil of India is so poor that it cannot become poorer, and that as a result, the people and their cattle are alike suffering from malnutrition. A constitution which ignores the providing of nutrition for man and beast is not worth the paper on which it is written. In the words of Adam Smith :

“ Political economy, considered as a branch of the science of a statesman or legislature, proposes two distinct objects : First, to provide a plentiful revenue or subsistence for the people, or more properly, to enable them to provide such a revenue or subsistence for themselves ; and secondly, to supply the State or Commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign.”

According to Adam Smith, the first business of the scientific statesman is to enable the people to provide for their own sustenance, whereas the first business of the party politician is, to enable the people to live off their neighbours. Mr. Snowden warned the nation lately how its morale was being sapped by the trend of modern legislation. It is evident that the party system of Government which, by its nature, forces each party to offer larger bribes than its rivals in order to get into power, cannot go on. The limit would seem to be reached now when Great Britain is being bled to death by taxation, and India must not be led into the mud of party politics, or saddled with a political system which Europe is discarding. She wants neither the godlessness of bolshevism, nor the dictatorialism of fascism, nor the demoralisation of partyism ; and she has no use for democracy. Democracy means a levelling down, and India is down enough already. What India wants is Aristocracy—a levelling up. Years ago, in his little book *Merrie England*, Mr. Blatchford, the Socialist, said he did not want to make the gentleman a collier, but the collier a gentleman. Mr. Gandhi does not want to make the Brahmin an untouchable, but the outcast touchable.

This is statesmanship and a levelling up which can be realised only by the development of the most uplifting movement in India to-day, that of Co-operative Finance which can be applied to all industry, whether agricultural or manufacturing ; and which makes every man (or group of men) a capitalist—his own master, working according to the dictates of sound political economy, first, to provide a plentiful revenue or subsistence for himself and his family, and, secondly, to supply the State or Commonwealth with a revenue sufficient for the public services ; whereas now, the people and the services both suffer from chronic malnutrition.

The world is waiting for a new type of Constitution, one which will make Man the master—a capitalist and aristocrat, however small—and money his democratic servant. Let India, with the help of the Statutory Commission, now give the world a lead, by establishing a Constitution based on Co-operative Finance, under which Conservatives, Liberals and Socialists will wither and disappear before the rising Indian sun.—A Constitution which will be a great evergreen mango tree under the shade of whose branches, Hindu, Moslem, and Christian, touchable and untouchable, will work and rest together, brethren all, Indians only, as desired by the Swarajist leader, Mr.

Motilal Nehru in his address to young India in London, a few weeks ago.

### EDUCATION.

The Statutory Commission is asked to report on the growth of education, on the assumption that an intelligent electorate implies a certain degree of education. The Report need not occupy much space or time, for there is little to report. There can be no education without money, of which the great masses of the people have little or none. What Mr. Hornell, the Director of Education for Bengal, said in 1918 is still true, "*you cannot make bricks without straw, nor create primary schools on the strength of the resources which are now available.*" The straw can, however, be found along the co-operative way. It will grow along no other.

I here quote from an article by Sir Patrick Fagan, K.C.I.E., C.S.I., Late Financial Commissioner of the Punjab, which appeared in the *Asiatic Review* for July last.

"Beyond a small fraction of its population, rural India is at present illiterate. The primary education of the entire mass is in the highest degree desirable as an indispensable means to agricultural efficiency in its varied aspects.

Whether it is possible, or ever will be so, is of course a very different question. Towards universal rural literacy the progress hitherto made has been meagre ; and it seems clear that little substantial progress can, in fact, be made without compulsory primary education. The obstacles in the way of such a policy are clearly very great—obstacles social, administrative, financial—with which it is impossible to deal here. The problem has, however, been attacked, and compulsory powers have been given to local bodies in a good many rural areas, but it is at present too early to judge results, actual and prospective. If they should be favourable a very real advance in agricultural efficiency and rural prosperity will become visible, distant though the view may be. On a basis of general literary, and in time perhaps of an even higher grade of education, vocational instruction and training in agriculture will be more readily practicable than is the case at present.

“ Any attempt to deal, however summarily, with rural conditions in India must be incomplete without a reference to the co-operative movement ; the most notable and at the same time the most encouraging economic development which that country has witnessed in modern

times ; and a development, moreover, which has also important social and moral bearings. Arising out of the problem of rural indebtedness, a problem of special prominence in India, co-operative credit societies have already done much to inaugurate a healthy system of rural finance for the provision of agricultural capital, while other non-credit developments of the co-operative movement have marked out several definite lines of social and moral uplift, some of which seem to be eminently practical. The value of the moral education which co-operation is affording in self-help, thrift, and social solidarity can scarcely be overestimated, even in the comparatively small area which it has so far reached. Its encouragement by all possible means is in the highest degree desirable."

### FINANCE.

I have said that a Constitution without money to make it effective is an engine without steam, a skeleton without flesh and blood. Find the money and the Constitution will find itself, education will grow, the people will live. Three years ago, His Majesty the King sent out a Royal Commission to report on Indian currency and finance but the



Commission passed the ráyat by on the other side, though he alone can solve the money problem when given the chance, and build a Constitution which will stand. "There is no wealth but life," said Ruskin ; there is no money but labour, said Adam Smith. The first words of the world's greatest economic book are these :

"The annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life which it annually consumes."

The greatest capital reserve fund in the Empire to-day is India's unorganised labour, and no Constitution will endure which fails to call up this huge fund.

Gold and silver and notes and cheques and bank balances create nothing, and pay for nothing. They are the nominal price only. Goods are paid for by goods, and all goods are the product of labour. "The real price of everything, what everything costs to the man who wants to acquire it, is the toil and trouble of acquiring it." So wrote Adam Smith ; but neither the modern economist nor politician seems to grasp this fundamental truth. "We have got back to the gold standard, all is well" they say ; whereas if the world were a ball of gold we should all be dead—no one would ever

have lived. "There is no wealth but life." There is no real money but labour—the labour of men's brains and hands.

There is so much ignorance, even in high places, regarding the nature of money and modern banking that it is necessary here to refer to the popular delusion that a bank cannot lend money until it has first collected deposits. As a matter of fact banks do not require deposits. "A bank is not an institution for borrowing and lending money. It is a manufactory of credit," says Dunning Macleod in one of his books. The Scottish banks were the originators of the cash credit system which led to deposit banking, but as Walter Bagehot shows in his *Lombard Street*, the banks had no deposits at all for twenty-five or thirty years after they began to issue their cash credits. They had the sense to see that Men, not money, created wealth, so, without waiting for deposits, they manufactured and issued to reliable men who could be trusted to return the money, as many One Pound notes as were required—not for greyhound racing, but for the development of agriculture and other productive purposes. The money went out and came back with crops of corn, then went out again to plant and bring in more corn, etc., and so the country grew and prospered. And so will India

prosper when she is organised co-operatively and follows the same path with her One Rupee note and plenty of small change to cash it. The note is the poor man's cheque, and the only possible form of credit for a people who can neither read nor write. When the One Rupee note has been harnessed to her great man power—organised co-operatively, India will begin to move along the path of peaceful progress, but not till then. Her Constitution will then stand firm, built upon the rock of Man himself and honest labour, and not on shifting gold sand which is becoming scarcer and scarcer. When the gold mines give out, on what shall we and our currency rest ? .

### TAXATION.

“ Khub Dekhta Age ” (looking well ahead) in his suggestive little book entitled *India To-morrow* gives one piece of unsound advice. It is contained in these words,

“ Mention has been made above of financial difficulties standing in the way of social policies. As an *obiter dictum*, it may be suggested that ministers will never succeed in commanding public support or in carrying out any practical reforms, until they take their courage in both

hands and are prepared to tax the people for the peoples' good."

But if "Khub Dekhta Age" will look backward as well as forward, he will see that the tax gatherer is the foster-parent of revolution—an enemy to be avoided, especially in these days when the *Times* tells us that Bukharin the Russian communist boasts of preparing an upheaval in India. Taxes had something to do with the secession of America from the Empire, and, if our own kinsmen rebel against our taxes, we should think twice and three times before suggesting that people of another blood be saddled with additional taxation even for their own good, and when our ideas of what is good for them may not be the same as theirs.

*The Amrita Bazar Patrika*, at another time of unrest, remarked sagely, "It is always painful to part with money," especially when you have not got any. To get money out of the tail end of a *dhotie* you must first get it in. To tax a rich man does not make him love you. To tax a poor man makes him hate you. The British taxpayer has already come to the conclusion that Mr. Gandhi was not far wrong when he described the Government of the west as satanic.

While we may not approve of Mr. Gandhi's methods of realising his ideals, it is instructive as

well as interesting to find that he is following, but in a more peaceful way, the trail blazed by men of English blood who brought about the American revolution when English politicians lost us that great country for the sake of some stamps. The following extract from the Encyclopædia Britannica's History of the World explains how the revolution came about.

**" MEETING OF THE ' STAMP TAX CONGRESS '**

(1765 A.D.).

" In the course of a three weeks' session a Declaration of the Rights and Grievances of the Colonies was agreed to. All the privileges of Englishmen were claimed by this declaration as the birthright of the colonists—among the rest, the right of being taxed only with their own consent. . . .

" The several colonial assemblies, at their earliest sessions, gave to the proceedings a cordial approval. The first day of November, appointed for the Stamp Act to go into operation, came and went, but not a stamp was anywhere to be seen. . . .

" The merchants of New York set the example of the non-importation of British goods by directing their correspondents in England to

ship no more goods to them until the repeal of the Stamp Act. . . . Instead of wearing British cloth, which was formerly a mark of fashion and gentility, the wealthiest colonists now clothed themselves in homespun habiliments.

“ The life of the collector of the stamp tax was not an easy one. There is an amusing description of a certain publican who went out on a white horse into the rural districts, and came back hotly pursued by a mob of farmers. As a witness quaintly worded it, he looked like ‘ Death on a pale horse with all hell after him.’ ”

This reminds one of Tam o’ Shanter as he fled on his grey mare Meg from Alloway Kirkyard—“ when out the hellish legion sallied.” Let the Statutory Commission take warning in time. A handful of English farmers after them would be nothing compared with 250 million satanic rāyats who would not listen to a boycott.\*

There is only one method of taxing the people of India in a way which they will appreciate, and for which they will ever be thankful. That is, for Government to take its courage in both hands and levy the bank tax ; or in other words, enter the

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\* Since writing this, a telegram has appeared in the *Times* announcing that, in a district in Lower Burma, tax collectors had been attacked by women—result, two deaths and several injured.

banking field, the greatest unoccupied banking field in the Empire—the field of the rāyat. There is no competitor in it but the Mahajan, and the sooner he is out of the way the better. Government need not borrow for the purpose. It can manufacture out of the credit or trustworthiness of the borrowers all the money required, and which can be lent safely. That is just what Joint Stock Banks are doing every day—reaping a rich harvest from crops of paper. They manufacture and lend eight or nine times more money than they receive, and levy a tax of six per cent. on the lot. The latest exposition of modern banking is a lecture given a few weeks ago by Mr. Hyde, manager of the biggest of the big five London banks. The following extract will suffice for the purpose,

“ It has been seen that if we can increase our cash we can increase our advances and thereby increase our deposits by eight or nine times the amount of the increased cash, without disturbing our ratio ; and, on the other hand, if we decide that we can work on a lower ratio we can liberate cash to form the basis of new deposits by increasing our advances by eight or nine times the amount of cash liberated.”

Mr. Hyde then goes on to suggest that if the public will be good enough to deposit in the banks all the

One Pound notes which are now in their pockets, and use cheques entirely for making payments, the banks will oblige the public by manufacturing and lending eight or nine times as much credit or cheque money, taxing the public only six per cent. for the obligation. The term "credit" which so mystifies the public is simply the fashionable banking name for the paper money manufactured in the bank's paper mill. The banks scare an ignorant public with the dangers associated with Government paper money, but they say as little as possible about any danger attached to their own. As a matter of fact, however, there is no danger attached to either, so long as it is used productively and returns. If it is used productively and returns it is good money and you cannot have too much of it. If it is *not* used productively and does *not* return, it is bad money, whether made of gold or silver or paper.

Now, assuming gold to be the base of credit (which it is not), the Government of India have great reserves at hand in their Gold Standard and Paper Currency reserves, which can be turned into cash as required, to form the basis of eight or nine times as much credit money, for the financing of the people. And yet, although India's great agricultural industry has been starving for money since the beginning of British rule, it has never occurred



to Government to reap the great harvest of taxes which can be levied by issuing the huge sums required to finance so great an industry. And it is because these huge reserves are lying dormant that India and all branches of the administration are moribund to-day. If all India were only organised co-operatively, £1,000,000,000 sterling could be issued with safety and bring in a clear £50,000,000 yearly of taxation, plus many millions worth of additional crops for the people. This is the form of taxation that India wants, and the only one she can afford.

### THE VILLAGE REPUBLIC.

All India is unanimous in desiring the preservation and modernising of her ancient republican system of village self-government. What like was that system before the disintegrating influence of the West made itself felt? A description of it is to be found in the *History of British India*, published in 1844 by the old-established firm of Messrs. Oliver and Boyd, Edinburgh. The History was compiled by seven eminent authorities, viz. :—

Hugh Murray, Esq., F.R.S.E.

James Wilson, Esq., F.R.S.E., and M.W.S.

R. K. Greville, LL.D.

**Professor Jameon.**

**Sir William Ainslie, M.D., M.R.A.S., late of the  
Medical Staff of Southern India.**

**William Wallace, F.R.S.E., late Professor of  
Mathematics in the University of Edinburgh.**

**Captain Clarence Dalrymple, Hon. East India  
Company's service.**

**The village republican system is described thus :—**

“ The Hindoos appear to have been always ruled by despotic governments, and for many ages their subjection to a foreign race, wholly differing in religion, manners, aspect, and language, has been singularly humiliating. Even the native princes, who have retained or recovered a certain degree of power, exercise a prerogative uncontrolled by any established rights or privileges. The only check has been one of a very irregular kind, arising from the turbulent sway of the inferior chiefs, whose influence over their immediate vassals is frequently exerted to support their own authority, which is not less absolute. Still, amid this corrupting despotism, traces are found of a system purely republican, existing in the villages which, over all India, have an internal constitution entirely distinct from the general rule to which the country at large is subjected.

“ A village, or rather township, is formed by a

community occupying a certain extent of land, the boundaries of which are carefully fixed, though often disputed. Sometimes it is cultivated by the united labour of the inhabitants; but more usually each ploughs his separate field, leaving always a large portion of common. Assignments of land are also made to various functionaries, who are charged with important public services. The principal personage is the potail, or head-man, who acts as judge and magistrate, and treats respecting their particular affairs with other communities, or with the national rulers. Other duties are intrusted to the registrar, the watchman, the distributor of water, the astrologer, smith, carpenter, potter, barber, washerman, and silversmith. Whatever change the supreme authority in the kingdom may undergo, into whatever hands it may pass by inheritance, usurpation, or force of arms, whether its sovereigns be native or foreign, the constitution of each township remains unaltered; no revolutions affect it, and no conquest changes it. Even when an overwhelming invasion or desolating inroad has compelled its members to leave their native seats, and to spend long years in exile, upon the first dawn of tranquillity they hasten back, and resume without resistance or

contest their ancient inheritance. These numerous republics, maintained in the centre of a powerful despotism, have doubtless contributed largely to the prosperity which India has enjoyed ; and yet they are too much scattered to exercise any permanent check on the absolute power of the princes and chieftains, who dispute among themselves the mastery of that extensive region."

A description of the old Indian handloom weaver whom Mr. Gandhi would like to revive is given in the same history :

" India has been celebrated not only for the rich products of her soil—her manufactures also have enjoyed a high reputation from the earliest antiquity. This branch of national industry, as Lord Lauderdale has ingeniously shown, is materially influenced by the wants of the several classes into which society is divided. That country contains a great number of inhabitants who are extremely poor, and a few who are immensely rich ; and to meet the demands thus created, she produces on the one hand a great mass of coarse fabrics, and on the other, a small quantity that are exquisitely fine. To exhibit themselves in splendid robes is a favourite object of oriental luxury ; accordingly, the labours of the loom had reached a perfection to which those

of no other country except Britain, and that very recently, could make even an approach. The delicate and flexible form of the Hindoo, the pliancy of his fingers, and the exquisite sense with which they are endowed, even his quiet indefatigable perseverance, all render him peculiarly fitted for this description of employment. The muslims of Dacca in fineness, the calicoes and other piece-goods of Coromandel in brilliant durable colours, have never been surpassed; and yet they are produced without capital, machinery, division of labour, or any of those means which give such facilities to the manufacturing skill of Europe. The weaver is merely a detached individual, working a web when ordered by a customer, and with a loom of the rudest construction—consisting sometimes of a few branches or bars of wood roughly put together. As there is no expedient even for rolling up the warp, the loom must be kept stretched to its full length, and becomes so inconveniently large, that it cannot be contained within the hut of the manufacturer, who is therefore compelled to ply his trade in the open air, where it is interrupted by every vicissitude of the weather. That, in an art which such pains have been taken to carry to the highest

perfection, no attempt should have been made to improve the machinery, and to remedy the most obvious inconveniences, is a striking example of that blind adherence to ancient usage, which forms so prominent a feature in the Hindoo character."

Mr. Gandhi is a disciple of Ruskin. He has told us that one of the books which have most influenced his life is *Unto This Last*, whose teaching is that values should be measured not by money but by life. And who will deny that Ruskin and Gandhi are right? If the living man is of more value than dead money, let man be master and money his servant. If "life is more than meat" it is certainly more than money. If the village will yield a more wholesome life than the chawl, preserve and improve the village. Are not the industrial nations of the west deploring the drift to the cities? Is not the garden city movement a protest against the slumdom of industrialism? How would Great Britain be fed in the event of a naval defeat, and where would India then be? Mr. Gandhi's economic ideas are perfectly sound.

It will be noted that in old India there was no connecting link between the village and the throne. "Khub Dekhta Age" points to the same weakness to-day when he says: "There are, at present, a

series of detached local bodies, stretching from the *panchayat* to the Provincial Council, but there is no connecting link between them, nor is experience on a subordinate council a condition of election to a higher one."

Therein lies India's weakness—the want of connecting links. But links of political paper only, would have only the strength of a red white and blue paper chain. "Khub Dekhta Age" says rightly that: "The local council in England is a live and healthy institution, whilst the local Board in India, speaking generally, is almost moribund." But why? Is it not, largely, because the English local councils have money, and India's local boards have little or none? Take away the English boards' money, would they not also be moribund? You cannot make bricks without straw either in England or India. An empty purse means an empty life, a moribund man, a moribund school, a moribund village, a moribund local board, a moribund Provincial Government, a moribund Governor, a moribund Central Legislature, a moribund Council of State, a moribund Viceroy, a moribund Constitution and a moribund India.

The man immediately responsible for all this is the money lender. When the *Mahajan* is dead, India will live. But it is hardly fair to blame him

altogether, for the people must, somehow, get money, and as things are, there is no one else to supply it. Yes, there is a link missing, and not one but a whole chain, and the only chain which will bind the people to each other and to the throne is a money chain reaching upward in spiral form from the village to the Viceroy.

India cannot go back to the old village life, but with the help of sound finance she can move forward to a new and better one. Even Mr. Gandhi is, I hear, using a "satanic" motor-car, its crest a spinning wheel, to push his homespun *Kaddar*. Stagnation means decay, movement means life, but there can be no move forward without money, and I have shown where the money may be found.

Supposing the joint stock banks had the money to lend, which they have not, and supposing the nature of their business allowed it, which it does not, they never could reach the myriads of small men who require small loans. Only the co-operative banking system inaugurated by Lord Curzon—the Peoples' Own Bank—can reach them. Since it was started twenty odd years ago it has opened seventy thousand branches, but there are ten times as many still to open, and they should be opened within the next ten years at latest ; for, in these Bolshevik days, delays are dangerous. The Montague-



Chelmsford Report tells us that "the immense masses of the people are poor, ignorant and helpless, far beyond the standards of Europe." And a new Constitution which ignores or fails to remove this great seedbed of sedition, will not endure.

## AMERICA VERSUS THE EMPIRE.

### MAN OR GOLD.

Finance is becoming more and more the ruling power in the world ; and America holds the sceptre. Her gold teeth are in the neck of Europe, and she means to retain her hold. The real gold standard has crossed the Atlantic, and now flies the Stars and Stripes—the American eagle sitting on top, claiming to be mistress of the seas, as well as master of the land. Britannia is to rule the waves no longer.

I may be wrong, but is it not possible that the big financiers are pulling the strings behind the "big navy" men? America has gained the mastery of the world by reason of the gold she drew from Europe in payment of war munitions. And if another great war should break out, her financiers would again be willing to help the nations to slay each other in return for more gold to enchain the world. And so long as the world worships the

golden calf, so long will America remain high priest and master, unless her gold teeth are drawn. Who can draw them ?

The only power in the Empire which can draw America's teeth is the organised power of India, and the dentist is the ráyat. There are 450 millions of people in the British Empire and only 120 in America. Are the 450 millions so weak that they cannot pull the 120 over the line, in a peaceful tug-of-war ? Gold comes into a country in payment of produce which goes out. Can the 450 millions not send out more than the 120 ? If not, they are weak indeed. Can the 450 millions not draw in more gold than the 120 ? If not, there is something wrong somewhere.

Yes, there is something seriously wrong somewhere, and that something is in India's 750,000 villages where the hundreds of millions live their stagnant lives, weak, disorganised, and disunited ; where, as the Montague-Chelmsford report tells us, "the immense masses of the people are poor, ignorant and helpless, far beyond the standards of Europe." There is no healthy financial blood in the Indian village, hence the weakness of the Empire, and its want of pulling power.

"The circulation of wealth in a nation resembles that of the blood in the natural body,

There is one quickness of the current which comes of cheerful emotion or wholesome exercise ; and another which comes of shame or of fever. There is a flush of the body which is full of warmth and life ; and another which will pass into putrefaction.

“ The analogy will hold, down even to minute particulars. For as diseased local determination of the blood involves depression of the general health of the system, all morbid local action of riches will be found ultimately to involve a weakening of the resources of the body politic.”

*(Unto This Last.)*

The morbid local action of the *Mahajan's* riches has so weakened the body politic of India that the Empire has not the strength required to pull against the highly organised power of America ; and until this morbid action has been flushed out of India's villages, with the life-giving power of the people's own organised credit, acting through the one rupee note, the putrefaction will persist, and America will retain the gold sceptre which India, organised co-operatively, should hold for her own and the Empire's good.

India's message to the world is that, organised Man is greater and more powerful than organised Gold ; and it now rests with the Statutory Com-

mission to enable India to make her message good, by so framing her Constitution that she will be able both to organise and exercise her strength for her own and the world's good. Thus will India do her part in ushering in "the Parliament of man, the Federation of the world"—the vision of Mr. C. R. Das when he said:—

"I believe in world peace, in the ultimate federation of the world; and I think that the great Commonwealth of Nations called the British Empire—a federation of diverse races, each with its distinct mental outlook—if properly led with statesmen at the helm, is bound to make a lasting contribution to the great problem that awaits the statesman, the problem of knitting the world into the greatest federation the mind can conceive, the federation of the human race." But India must first be knit.

## HINDU AND MOSLEM.

### A COMMON PLATFORM.

"Khub Dekhta Age" writes wisely when he says that—

"There are few common platforms on which all races can meet. It has been the experience of other nations, and England and Ireland are

both examples, that religious controversy passes, though slowly, from the arena of politics when a nation begins to occupy itself more and more with social problems common to all, irrespective of their religious opinions."

A somewhat similar suggestion was put forward by the Honourable Mr. P. C. Lyon when, in referring to the good work done by the young men of Bengal in connection with the floods in Burdwan and Midnapur, he said :—

"I look forward to the time when the co-operative credit society of each village, bringing the people together for all matters connected with the weal of the village, will be linked up with the system of village and circle government, and will be utilised as the only efficient electoral unit."

Where money enters into a problem all men are of one blood. If the Statutory Commission follows the advice of "Khub Dekhta Age," as I hope it will, and goes "into the hedges and highways to gain some insight into the viewpoint and needs of the man at the plough," Hindu, Moslem, or Christian, it will find that to be an electoral unit does not fill him with patriotic fire. Talk to him, however, about the monetary unit and his eye flashes, and at once every man in the village

becomes a Scotsman from Aberdeen, and a Responsivist.

It is the blending of finance with all the other activities of the village that gives co-operative credit its great uplifting power, and in proof of this I cannot do better than quote from the official Blue Book—the report on the *Moral and Material Progress and Condition of India*, 1925–26.

“The importance of the Co-operative movement in this country need not be stressed. It is a truism that Agriculture is India’s greatest industry and it is well-known that of all Indian problems none exceeds in importance the problem of the welfare of India’s rural population, whether looked at from the point of view of the numbers of people concerned, or of its inherent difficulties and wide ramifications. The Royal Commission on Indian Agriculture will explore thoroughly every way in which the Government of India can help to improve the organisation, credit and marketing of the rural population, but, of course, Government action has its limits. The Co-operative movement with its ideals of self-help and mutual assistance carries on where Government action must perforce stop. The movement in India is now just over 20 years old and its history has been one of practically uninterrupted

progress. The first Co-operative Societies Act in India was passed in 1904, and by the middle of 1925 the number of Societies had risen to 71,608, their membership to over two and a half million persons and their working capital to nearly five hundred millions of rupees."

"Hitherto we have been discussing the work of the provinces in the 'nation-building' departments, properly so called. Co-operation, education, local self-government and public health, all have the most intimate relations with, and reactions on, each other. Even the necessarily brief account of the co-operative movement contained in this chapter shows what co-operation has already done for India's rural population and what immense potentialities it has for the future. Before the Indian peasants who, it must be remembered, are 75 per cent. of India's population, can take much interest in anything outside the daily round and the imminent task of wresting a living from the soil, the crushing burden of debt under which practically every one of them now lives must be lightened, and the ravages of disease which weaken them and cause in the aggregate immense economic harm, must be checked. Then only will they be able to send their children to school long enough to

let them acquire an education which will make them better able than their parents to grapple with the circumstances of their lives and raise their standard of living. With increased education will come some realization of what self-government means and what it can do not only for their immediate locality but for the whole nation. It is in these cells of the body politic that a true national spirit can be fostered. When men see their children gaining demonstrable benefits from the schools kept up by local authorities, and when they themselves benefit by the efforts of those same authorities in bringing light and water into their houses, and roads into their neighbourhoods along which they can drag their produce economically to market in carts, instead of taking it painfully and expensively on their heads or on the backs of bullocks and donkeys, then they will begin to realise what community of effort can do for them."

The future of India and the successful working of its Constitution depend, therefore, on the development of the co-operative credit movement along sound lines. And, standing together on the common platform which this great movement provides, united with silver chains which they will not seek to break, Hindu, Moslem, and Christian



will work together as brethren, for the good of their Motherland.

### THE RESERVE BANK ACT.

Finance will either make or mar India's new Constitution. The Statutory Commission would, therefore, be well advised to scrutinise very carefully, and before it becomes law, the terms of the new Reserve Bank Act which Sir Basil Blackett, Finance Member of the Government of India, has just arranged with Whitehall. If the Act does not make full and ample provision for financing the great industry by which India lives, its proper place is the waste-paper basket.

It is a most extraordinary thing that no banking system in the Empire, excepting perhaps the Scottish before it was scotched by the English Bank Act of 1844, has yet been able to arrange for the financing of the world's greatest industry—the industry which is at once the base and backbone of all others, and by which all men live, from the King downwards. It has only now dawned on the British Government that agriculture must have a system of finance suited to its needs, and the Ministry of Agriculture is now shaping a Bill to catch the farmers' votes and give them the credit they require.

The test of a man's solvency is the rate of interest he pays for the money he borrows. The rate which India pays for the money it borrows is anything from 25 to 150 per cent. Therefore, the people of India are insolvent. In his budget speech two years ago, Sir Basil Blackett said that the financial position of India was "the envy of other nations." Sir Basil mistakes the Government of India for India. Government may borrow at 4.69 per cent., but the people's rate is 46.9 and oftener more than less. This is the wrong which only a banking system suited to the people's needs can put right; and until it is put right nothing will be right, whatever the paper constitution may be.

Lord Birkenhead realised that India's future depends on a prosperous agriculture when, in his 1925 speech, he said :—

"I ought, perhaps, in any estimate of the present and future material condition of India, to say a special word upon the subject of agriculture. No greater contrast in occupation than that between the people of Great Britain and those of India could well be found. Whereas the former live in vast aggregation in large towns, the latter live scattered in countless communities over the countryside. In England and Wales 80 per cent. of the population is returned as

urban; in India 80 per cent., on a moderate estimate, is recorded as rural. Unfamiliar as these topics are to me, I nevertheless venture with almost dogmatic certainty upon the statement that an immense increase is attainable in the yield and therefore in the prosperity of agricultural India. Much has already been done by the Agricultural Department : by loans, by irrigation, by scientific instruction. Nor am I unaware of the difficulties which beset the path of the reformer. He is confronted by the stubborn conservatism of the peasant proprietor ; by an infinite splitting up and sub-division of ownership ; even by an obstinate disinclination to be taught new ideas or to adopt fresh methods. But making all allowance for all these difficulties, I would desire to make my opinion plain, that a future of incalculable prosperity awaits India if and when she learns fully to realise and to value her agricultural kingdom. This particular subject is, as your Lordships know, a transferred subject. This circumstance does not render a correlated and rational attempt to deal with it more easy ; but it has been closely discussed between the Governor-General and myself ; and I am not without hope that, during my tenure of office, if I am fortunate, it may be in our

power to contribute to its further development a powerful impetus."

India already fully realises the value of her agricultural kingdom ; but her future of incalculable prosperity will never come until the land is covered with a network of village co-operative societies ; and nothing else will provide the powerful impetus required to realise her kingdom. As evidence of this, and for the guidance of the Statutory Commission, I here quote from the report of the Irish Banking Commission published last year :—

"It seems well at the outset to explain that, in the opinion of the Commission, a sharp distinction should be drawn between long-term credit in agriculture and long-term credit designed for the support of industrial or business enterprise. The Commission has in fact adopted as a basis for its work, a resolution definitely taking the view that, whatever may be done with respect to the re-organisation or support of business or industrial credit shall be kept quite separate from any action that may be taken with respect to agricultural or farm credit. There are several reasons for this fundamental distinction. In the first place, there is, as we have already pointed out in our Second Interim Report, no such predominating place to be assigned to

business or commerce in the Irish Free State as is assignable to agriculture. If agriculture be regarded as representing 80 per cent. of the material interests of the Saorstát, other forms of business are relatively only one-fourth as important. Secondly, as is generally the case, the business man is in a better position to protect himself and his own interests than the farmer, certainly the small farmer, usually can be, and whatever argument may exist for special aid to the farmer can seldom be said to exist in the case of the merchant or manufacturer."

After recommending the formation of an Agricultural Credit Corporation for the financing of agriculture, the Commission goes on to say :—

" Even with the fullest measure of assistance from the Government in the form of agricultural education, and even with the provision of abundant capital by the means already indicated, it is not likely that complete success can be attained by any such institution as we have recommended without the development of a strong, satisfactory supporting mechanism. What that must be needs now to be discussed. Fundamentally it must be that of the co-operative societies, since it is chiefly through these that the central body

will be able actually to come into contact with the farming community."

The finding of the League of Nations at the 1927 Geneva Convention was, practically, the same as the finding of the Irish Banking Commission. The International Economic Conference of the League said :—

"Agriculture is the occupation of the majority of workers throughout the world ; its various products represent in value the greater part of human labour, and the exchange of its products against industrial products forms, indeed, the basis of world trade.

"The agricultural population remains for humanity a reservoir of energy capable of preserving the nations from the rapid human wastage which may result from any excessive growth of industry.

"The interdependence existing between nations is no less close between the main classes of occupations—agriculture, industry and commerce—and it would be vain to hope that one class could enjoy lasting prosperity independently of the others.

"The first condition for surmounting the difficulties of agriculture is the organisation of suitable credit institutions. The best form of

institution appears to be the co-operative credit society operating by means of resources which the very fact of association enables it to procure and to increase with or without the assistance of the public authorities. . . .

“ In particular, the creation and development of mutual credit would be greatly facilitated by Government assistance.”

India is getting tired of western financial advisers. The Chamberlain Finance Commission of 1913 refused to discuss co-operative credit—not understanding that the finances of Government depend, ultimately, on the finances of the people ; and that if the peoples' finances are unhealthy so also must be the finances of Government and of every department of Government. And so when the floods descended and the winds of war blew, the Chamberlain report was blown away. But now that the League of Nations and the Irish Banking Commission have given co-operative credit their blessing, perhaps so distinguished a member of the League as Sir Austen will realise that he blundered badly when he turned down the only power in the Empire that can clip the American eagle's wings.

After the Chamberlain Commission came the Babington Smith Commission which hitched India

on to the American gold dollar, with results disastrous to India and her gold reserves.

After the Babington Smith Commission came the Retrenchment Committee, which, to save a printer's bill, abolished the One Rupee note, and in doing so injured, very seriously, India's future. For, without the development of the people's credit through her paper currency—especially the One Rupee note—India is doomed to a future of perpetual poverty, ignorance and helplessness.

Next came the Hilton Young Commission which, very wisely, reinstated the One Rupee Note ; and for this India must be grateful. But, unfortunately, like its predecessors, it forgot all about the rāyat, although he numbers 250 millions and is the man who, above all others, requires finance. The Commission recommended handing over India's 235 crores of reserves to the small minority who constitute the traders or fat men, Indian and European, who, as the Irish Banking Commission said, are so well able to look after themselves, while the 250 helpless millions, to whom eighty per cent. of the reserves belong, were left out in the cold, or shall we say in the heat of the Indian sun, to wither and die in debt as their fathers had done before them. English, French, Dutch, American, Japanese banks were all to have access to the



ráyat's reserves, but he was to stand out. In the Reserve Bank Act as originally framed, the Government of India were even so kind as to allow the Bank of Taiwan, which some months ago brought Japan to grief, to have access to India's reserves, while the people themselves were forgotten. Such is high finance, and the sound currency system recommended by the latest Finance Commission.

I do not know what provision the re-modelled Reserve Bank Act makes for the financing of the greatest industry in the Empire, India's agricultural industry. If it provides only for the cashing of a limited amount of agricultural three or six months' paper, I hope the Legislative Assembly will throw it out. Or if, besides failing to provide for the financing of the people, it is framed with the object of creating a central gold reserve on the American model, the Legislative Assembly would also be well advised to think twice before passing it. A growing world is scrambling to get on to a shrinking gold base, and prices being higher as a result of the war, a larger amount of gold is required for the so-called base of credit. But the gold production of the world is falling; and to tie a growing world to a shrinking metal means trouble sooner or later. The Master of the British Mint has just issued a note of warning on this point, a copy of which I annex.

He points out that the growing scarcity of gold coupled with the growing demand, means falling prices, unemployment, bad trade the world over. This confirms the teaching of the Cunliffe Report, which tells us that, to preserve the gold standard it is necessary at times to raise the bank rate, and in so doing to curtail the supply of money, to throw goods on a weak market, to throw men out of employment, and to create distress.

I understand that Sir Basil Blackett was a signatory of the Cunliffe report. When India's finances have been so wrecked by her previous financial advisers is he, at the dictation of another of these high authorities, going to tie India to a financial system which may spell disaster? India is already stagnant for want of money. Does he mean to tie her to an American banking system which American farmers distrust, and which may make money still scarcer and dearer? Before he hangs this possible millstone round India's neck, has he taken steps to ascertain how the federal reserve system is working in America?

For Sir Basil's guidance, as well as for the guidance of India's legislators, and the information of the Statutory Commission whose work may be undone by a doubtful and possibly dangerous banking system, I append copy of an article

entitled "Banking Unrest in the United States," which appears in the December number of *Banking*. The article is by Professor Parker Willis, of Columbia University, America. Professor Willis was Chairman of the Irish Banking Commission, so, presumably, knows what he is talking about. The article shows clearly that the American Federal Reserve System is not the success which the Hilton Young Commission believed it to be, and on which false belief they based their recommendations for India. The article shows also that the Joint Stock Banks have a strong antipathy to the man known as "the currency authority" who switches off and on the supply of money at his own sweet will; and *they* claim the right of control on the ground that they are in direct touch with the business world and are, therefore, in a better position than "the currency authority" to gauge the country's money requirements.

I have shown elsewhere the danger of leaving any man to control the amount of money which India should have. The money required by Government and the business world, which is so well able to look after itself, is not the money required by the 250 millions who are *not* able to look after themselves. The men who know best what the 250 millions require are the Government

Registrars of the Co-operative movement. These are India's finance ministers ; they are in close and constant touch with the people, and know better than any so-called " currency authority " what the people require, and what the people must have, if India is ever to get out of the Slough of Despond in which she now lies, and out of which it is the business of the Statutory Commission to lift her. For, in the King's speech, His Majesty tells us that the work of the Commission is to bring contentment to the people and so strengthen the bonds that unite His Empire.

About twenty years ago Mr. W. J. Bryan, America's orator statesman, passed through Calcutta. At a meeting in the Town Hall to bid farewell to a number of Indian students who were going abroad for scientific and industrial training, Mr. Bryan gave a few words of encouragement and advice to the young men. I cannot recall what he said on that occasion, but I remember his famous words of warning to his countrymen, " Thou shalt not crucify mankind upon a cross of gold," which is what America is now doing. If Mr. Bryan were again to pass through Calcutta, his advice to India's young men would be " Thou must not let my country crucify yours upon a cross of gold." For this may be the result of the Reserve Bank Act if

it links India to the gold chain with which America is enchaining the world, and makes no provision for the financing of the rāyat who alone, when given the chance, can break that chain.

Following the teaching of the false prophets that gold is the base of credit, we see the nations one by one borrowing America's gold, putting their necks into the American noose which will be tightened just enough to keep the world on the chain. The teaching of these prophets is that, when the Almighty laid the foundations of the earth He decreed that the welfare of the 1,900 millions of men, women and children who now inhabit the earth, and the millions yet unborn, shall depend upon the labour of a few white men and negroes who sweat out their lives, burrowing for gold, in the bowels of South Africa. This is the teaching of Cambridge professors of political economy and the "Sound Currency Association"; but I hardly think that any Indian—Hindu, Moslem, or Christian, with brains in his head, or a heart in his chest, will believe that the Almighty ever decreed anything so stupid, or so heartless and unsound.

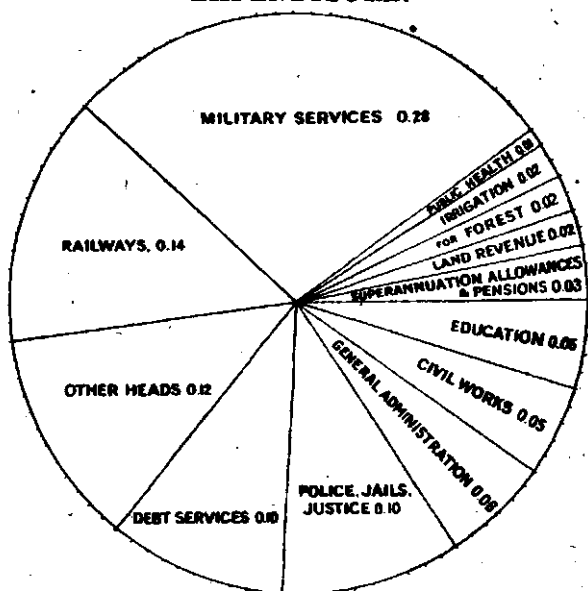
If there is no base of food under the gold base, the gold is worth nothing; and if there is no labour base under both, neither can come into being. Honest labour, the labour of men's brains and hands

is the base of credit, the real money of Adam Smith and of common sense ; and India's new Bank Act must recognise this and ensure that her great working capital fund is organised and called up for the work of nation building ; otherwise the Statutory Commission will labour and build in vain.

### THE NATION BUILDERS.

HOPE DEFERRED.

### COMBINED CENTRAL AND PROVINCIAL EXPENDITURE.



THE RUPEE OF EXPENDITURE, 1924-25.

The following quotation is taken from the Moral and Material Progress Report for 1924-25 :—

“ The hope that the resources of the Provinces, increased as the result of the new financial settlement, would assist them in finding money for large schemes of economic and social progress, has been deferred. Since it is upon progress of this kind that the success of the reformed constitution largely depends, considerable dissatisfaction has resulted. The Ministers in charge of ‘ nation-building ’ Departments have not been able to effect those expansions which educated opinion has for long insistently demanded.”

The official blue book tells us frankly that the nation-builders were given an impossible task. They were expected to build a Taj Mahal with the price of a coolie hut. “ Hope deferred maketh the heart sick,” and the heart will remain sick while the public health bill foots the list as the diagram shows. The military bill is 28 times higher than the health bill, and the police bill doubles the education bill. I do not say that the military or police bills are higher than they ought to be, but I do say that if the constitution of flesh and blood and the constitution of paper and ink are to be

healthy and strong, India's finance ministers must no longer look to Monte Carlo.

### THE GAMBLERS.

Indian Government Finance is explained thus in the *Moral and Material Blue Book for 1925-26* :—

“ The prosperity of India, and, consequently, the state of the Indian Budget, depends very largely on weather conditions. Indeed, many people to whom India is hardly more than a name are yet familiar with the famous description of the Indian Budget as ‘ a gamble in rain.’ Since this epigram was made, the Indian Government have marked many of the cards with which they play, by extending irrigation and communications, especially railways, and the gamble has thus assumed something of the form of a game of skill and foresight. Nevertheless, continuing our analogy, the monsoon still takes a leading part in the game, and the Indian, and now, also, the Provincial Governments, must play according to the cards which it deals.”

Besides the gamble in rain, India is now to have the pleasure and excitement of a gamble in gold, and if that still leaves her short of cash, she will, I presume, turn to the “ bookie,” like Mr. Winston Churchill, or to the Calcutta Totalisator, and



Simon's Trust. The time has come for all this foolery to cease. That it can cease I shall now proceed to show from the same blue book. For the gentle rain which falls from heaven is quite enough to feed all India and quench her thirst, notwithstanding an occasional failure of the monsoon. Page 269 of the blue book says :—

“ During the year 1924–25 the total area under irrigation, excluding Indian States, amounted to 27.2 million acres. This represented 12.4 per cent. of the entire cropped area of the country, and was about a million acres less than the record area of 28½ million acres irrigated in 1922–23. The total length of main and branch canals and distributaries in operation amounted to about 67,000 miles, while the estimated value of the crops supplied with water from Government works was Rs. 152 crores, . . . The total capital outlay on irrigation and navigation works, including works under construction, amounted at the end of the year 1924–25 to Rs. 93.58 crores. The gross revenue was Rs. 10.85 crores, and the working expenses Rs. 4.03 crores. The net return on Capital is, therefore, 7.29 per cent.

“ It should not be forgotten, however, that irrigation in India does not end with her canals. Wells are, and always will be, a vital factor in

Indian irrigation. . . . In 1924-25 the number of wells bored by Government was 1879, of which 1293 were successful. The number bored in the preceding year was 1,766, of which 1,243 were successful. There is great scope for the constitution of power pumps for water lifts driven by bullocks or man power. Some progress in this direction has been made, but the plant will require to be standardised, and capital, or at least, credit, provided before this method of lifting water is adopted on a large scale."

Just so ; the want of credit is responsible for the want of water and the want of food and the want of education and everything else, as well as for the malnutrition from which man and beast, and every department of the Central and Provincial Governments, are alike suffering.

Why then does not Government set to work and manufacture the credit required by the people, and for the want of which they are doomed to perpetual poverty and stagnation. If Joint Stock banks, with only the assets of a handful of bank shareholders behind them, can manufacture millions sterling of credit every day, why cannot Government with the assets of the whole nation behind them, including all its gold and silver and the assets of the banks besides, manufacture all the credit

required to set every able-brained and able-bodied man to work on the production of food and what Adam Smith calls "the necessaries and conveniences of life." Why do not the gamblers learn the great English bank trick of turning One Pound sterling into eight or nine pounds sterling; or the still better ancient Scottish game of turning honest men into honest money without limit? This credit costs only one per cent. to manufacture, and the blue book tells us it gives the people a return of Rs. 160 per cent. in crops and the Government Rs. 7·29 in cash every year; and yet the gamblers cannot see it. Sixteen hundred rupees' worth of rice and Rs. 72·9 of cash for people and government respectively every ten years; and sixteen thousand rupees' worth of rice and Rs. 729 of cash for people and government respectively every hundred years, in return for a few scraps of paper costing one rupee; what more do the gamblers want? If the Government do not want it the people do, and I hope that the people's representatives in both the Central and Provincial Governments, whether under the old Constitution or the new, will see that the people get it.

There is no sophistry or gambling in what I say: it is all sound finance and common sense. It is not money or credit, or gold or silver or bank notes,

or savings, that create wealth. These create nothing. The Almighty with the help of men's brains and hands creates all material and social wealth ; but a defective and unsound banking system blocks the path of man and his Maker. A banking system which Sir Basil Blackett has told us creates unemployment to save itself, or which fails to create employment while men are waiting to be enrolled and organised and set to work productively in the growing of food, the weaving of cloth, the making of roads, etc., is a banking system which will never save India, and one for which India has no use.

### WHITE SHIRTS.

In reading Miss Bordeaux's life of Mussolini, one is impressed with what one man has accomplished in the space of five years, with the help of his "Black Shirts." Five years is the official lifetime of an Indian Viceroy or Governor. In that time Mussolini and his Black Shirts have established a new kind of Constitution—the Corporative State, and rebuilt Italy.

I here give Miss Bordeaux's description of the Corporative State and how it works :—

"Now things are being done in Italy. Now the Italians are marching forward ; producing, building, taking their place among the world's

scientists, inventors, sportsmen. Fascism has done that, or rather the power ruling the Facists, for without that power, without that stern, mad man, where would Italy be to-day ?

“ There are many anti-Facists, and even non-partisans who think Mussolini has gone too far, and that for that reason alone another party will soon take his place, and that Italy will be the same fine country, only better, for there will be no strict laws, and thus people will be able to do as they please.

“ No ! Mussolini has not gone too far, for if he had he would know it, and turn back. He, the son of a blacksmith, has reinstated the aristocracy, which for fifty years had no official position at Court. Until he came into power, a commoner, a *commandatore*, who may have bought his title by money made in any profiteering way, passed before a Roman prince at a Court reception. This is now changed. Family counts for something to-day, if the members do anything to show their worth. He it was who appointed a Roman prince as Governor of Rome, thus again making an ancient name respected by the populace as well as the aristocracy.

“ The new propeller system invented by an obscure Naval engineer was brought to his notice.

The inventor was at once sent for, the invention discussed, then, as the man was poor, funds were placed at his disposition so that he might perfect his invention. The result? In a few months, perhaps before this book goes to print, Italy will have the fastest transatlantic steamer in the world. A ship that will make forty knots an hour, and be able to cross from Italy to New York in four or five days. She will be slightly smaller than the *Roma*, but built in such a way that she will verily plough the ocean, cutting her way like a knife.

“ The reign of Fascism has brought an impetus to Italy that no one would ever have expected. The great work in all public improvements, the building of the Apulian aqueduct supplying forty communes, the building of the biggest tunnel in the world between Florence and Bologna—a tunnel ten miles long, which reduces the running time of trains by hours. The construction of the new direct line between Rome and Naples, reducing the running time by two hours. The electrification of the line between Modane and Leghorn, the longest electrified stretch in Europe.

“ Since the early ages when cows began giving their milk to be sold in the cities, it has been diluted in Italy. Among the “ terrorist ” laws

made by Mussolini is one forbidding a dairy to sell watered milk ; the punishment for such an offence is imprisonment, a fine, and the closing of the shop for a stipulated time. If the offence is repeated the licence to sell milk is taken away entirely. So used were the Italians to doing exactly as they pleased, that they paid no attention to the new law, and in defiance of it watered their milk even more than had been their habit. But they found that Italy had a ruler who made laws that *were* laws. Dozens of milk shops were closed in every Italian city, while the owners were given plenty of time in prison to think of new ways of evading the law in the future !

“ These are only a few of the, so called, unimportant laws, laws that annoy a great many people, but that tend to make a populace honest in business and ready to enforce honesty in their neighbours.

“ Then there is the Corporative Government, only in its infancy, but so far very successful. It is spoken of as the Mussolini Corporative Government, for of course he was the one who first thought of trying this form of government. If it does not prove to be the right form of government there will be a change.

“Corporations, or Guilds, have been established for all possible classes of workers. There is the corporation of intellectual workers : writers, doctors, lawyers, engineers, etc. ; the Labour Corporation for each and every class of working people—in all, fifty-five have already been organized.

“Among the fifty-five organizations is the Corporation of Antiquaries, which the Fascists will try to control in order to prevent the selling of an object costing five pounds for two hundred. Painters who restore ancient pictures are also to form corporations, and will be severely punished if they fabricate old paintings, and get dealers to sell them as authentic. There are corporations of all kinds of masons, metal workers, gold, silver, copper, and brass founders ; enamellers, coiners, coral, amber, and lava workers ; precious stone cutters, jewellers, watchmakers, and even scissor grinders. Other artistic corporations are those of gilders, varnishers, tapestry makers, workers in terra-cotta, china and glass ; marble workers, leather workers, lace makers, and manufacturers of pianos, mandolines, and accordions. Photographers, lithographers, felt hat makers, straw hat weavers, and even washerwomen and linotype operators are counted among the professions, and



have each their corporation ! (How like the old Indian village republic !—D.M.H.)

“ This is much like the Guilds of the fourteenth century.

“ These corporations each have their own Minister who deals with all questions that can possibly arise, and which are to be presented to him through the heads of the corporation, or their lawyers. All this leads to a state of internal peace, as there will be no more strikes to contend with, for when difficulty arises in any line of work, the employee goes to the head of the corporation and tells his trouble ; the employer is called to defend himself, a special committee of experts in that line decides who is in the wrong, and until the matter is decided the workman must continue his work, and the employer must continue to give him work. Thus those who work are protected, and the employer is also assured that his workmen will not leave him in the middle of a rush season, nor even when work is slack. It protects the landed proprietor in good weather, and the workman in bad. What could be better for a nation ?

“ This Corporation Government will probably lead to a Co-operative State, which is what Mussolini is really striving for : that means to

have the Chamber of Deputies, not as it is now, but each Deputy as the representative of a certain class of people instead of a district.

“ Too much money had always been spent for flour on the foreign market. Bread and macaroni being the staple food for the people, the price of both are fixed by the Government, for following the money exchange makes it hard on the poor, So for the benefit of all classes Mussolini ordered, and in company with the King assisted at, a great planting of grain, both he and the King breaking the ground in the Campagna Romana, where vast fields were planted. Enormous crops were harvested, and the price of all farinuous foods reduced accordingly. For a time, until their own flour was ready for use, the bread of rich and poor alike, as an economy, was made of equal portions of whole wheat and white flour. Not pretty to look at, but excellent for the health. The King and Mussolini also assisted at the harvesting.”

On reading this, the thought crossed my mind, could not India's Viceroy do the same, but with the help of White Shirts instead of black ? The war cry of the Black Shirts is “ To Us.” The war cry of the White Shirts might be “ To Our Country.” Black Shirts bear the sword, White Shirts the pen.

But as the pen is mightier than the sword could not India's young *intelligentsia*, if given the chance, do as great a work for their country as the young men of Italy have done for theirs? "Peace hath her victories no less renowned than war." Could not Lord Irwin enrol a small peace army of White Shirts to wage war on the *Mahajan* and on India's poverty, ignorance, and malnutrition?

The Corporative State leaves Capital and Labour in separate camps: the Co-operative State transforms Labour into Capital, making both One. The Corporative State rests on force: the Co-operative State on faith, which is what the world wants to-day; and Miss Bordeaux tells us that it is a Co-operative State that Mussolini "is really striving for." Might not Lord Irwin and his White Shirts give Mussolini and his Black Shirts a lead?

I have shown where the money to pay the peace army can be found. Finance ministers can find thousands of crores of money when wanted for the destructive work of war. They must also find a few lakhs for the constructive work of peace. And I have shown where to find the money—in the labour of the graduate's brain and the rāyat's hand set to work *productively* with the One Rupee note which has plenty of gold and silver to back it, and which in the words of Adam Smith, will bring into

India more gold and silver "to enrich both the people and the sovereign."

To begin with, the money for the salaries of the White Shirts might be *lent* to the Provinces; but if lent, the five per cent. payable on the money should be treated as a refund of capital, and go towards repayment of the loan. When the White Shirts get into their stride, the co-operative banking profits will pay their salaries a hundred times over; for the banks will have no sixteen per cent. dividends to pay to bank shareholders, and no interest to pay to outside depositors. And the White Shirts will create employment for thousands more of their shirtless brothers.

Let Lord Irwin, therefore, give the White Shirts a chance to rebuild their motherland; for 'tis better to build a constitution of healthy flesh and blood than trust to one built of *papier maché*, which my dictionary tells me is "a material consisting either of paper pulp or of sheets of paper pasted together, which by a peculiar treatment resembles varnished or lacquered wood in one class of articles made of it, and in another class (chiefly architectural ornaments) somewhat resembles plaster"—an architectural ornament, a house of cards which the first great storm may blow down.

### THE PIVOT OF THE EMPIRE.

In an after-dinner speech in Calcutta I heard Lord Curzon say that his ambition was to make Calcutta the Queen of the East. His vision widened; and some time before the war, he delivered a lecture entitled "India, the pivot of the Empire." The pivot is the central pin round which the Empire turns, but India is not yet the pivot. She is the circumference only, not the centre. She is in the Empire, but not of it.

In his Co-operative Credit Societies Act Lord Curzon forged the pin around which the Empire should revolve, but the revolutions are few, and the great wheel turns slowly and turns out little, because India's 320 million man power is still weak, disorganised, and disunited. Is the Statutory Commission going east to organise and link up the great man power, and let the Empire put forth its strength?

Finance is now the motive power of the world, a power which claims to be based on gold. If that is so, the gold and the power will pass east when the East is organised; and the Bank of England will be left without a gold throne on which to sit. India will then be the pivot, and if numbers count, the Empire will be more Indian than British. But better that the gold should flow east into the

Empire, than west to enchain, and there be the pivot of, the world.

### THE HIDDEN HAND.

I have no desire to blame the Government of India for the great hiatus or chasm which separates the people from banking facilities. Neither do I blame the British Government, excepting that, as Parliament claims to be responsible for the welfare of India's millions, it must accept responsibility for leaving the chasm so long unbridged.

The power behind the throne is the money power, whose English chief is the Bank of England, known in financial circles as "the hidden hand," because it moves in a mysterious way and shuts off or on the supply of money as and when it pleases. Behind this hand, however, is a still more powerful hand, the hand of the Federal Reserve Board of America. I do not think it is going too far to say that the Bank of England is now, virtually, only America's exchange broker; and so little faith has America in her broker that she has lately supplied the Bank of England with an "adviser" whose duty it is to see that America's gold is lent out safely.

A very important question, therefore, about which the Statutory Commission will have to make

up its mind is, whether Indian finance should remain longer under the control of the Secretary of State, which means the control of the British Treasury and "the hidden hand," or whether the time has come when India should have full control of her own finance ?

India has waited long for a banking system which will meet the people's needs, but this she has not yet got. She still pays fifty per cent. for her finance when other nations pay five ; and it would be courting disaster to struggle on longer against this terrible handicap in the race of life. Is India's new banking system to be designed to suit India and her people's needs, or is India, and her bankless people, to suit the banking system ? The question is a straight and simple one and requires a straight and simple answer ; for upon the answer depends the successful working of the new Constitution.

### THE NEW CONSTITUTION.

My own feeling with regard to the question asked in the previous chapter is that, as the British Parliament (not willingly but in ignorance) has for so long a time overlooked the necessity of having a banking system for the people for whose welfare it is responsible, and that stagnation of the

masses is the result, the Government of India should now assume full responsibility for the finances of both Government and people ; and that the existing Constitution be altered accordingly ; but subject to the reservation that, in the event of an imperial emergency such as the great war, India would, with the Colonies, act in conjunction with the British Government.

#### CHINA.

Neighbours should be neighbourly, as Bengal's great lawyer, the late Sir Rash Behary Ghose said to me on one occasion ; and all the more so when your neighbour is three stones heavier than yourself. China is working out of her revolutions, and when she is out she will want what I have heard a Bengali describe as " silver tonic " to recover her health, and strengthen a Constitution so weakened by war. If she does not get silver tonic from her neighbour next door, she will get gold from her friend across the ocean.

If, after ridding herself of the reds and other undesirables, China decides to plump for the gold standard, and borrow American gold as she must do for that purpose, two things will happen. First, she will put her neck into the American noose ; and secondly, in so doing she will draw still tighter



the noose which is now round the neck of Europe. For the Chinese heavyweight, when in form, will draw a lot of gold eastwards ; and this, as the Cunliffe report and the Master of the Mint have told us, will mean unemployment and trouble in Europe.

If, on the other hand, China wisely decides to retain her silver standard, but cannot afford to pay for the silver required to support an issue of sound paper currency issued for sound productive purposes, India might come to her rescue, by lending her some of India's surplus silver. The Hilton Young Commission has told us that India may have a surplus of many millions of ounces to dispose of—the equivalent of say two years' world production ; and if any considerable portion of this were thrown on the market it might upset the international exchanges the world over, besides depreciating seriously the value of the great quantity of silver now hoarded by the more well-to-do portion of India's 320 millions.

With the development of her paper currency, especially the One Rupee note, the Government of India's large holding of silver will increase automatically ; and to what better use could she put her surplus than to gain the good will of her great neighbour, by helping her on to her feet and wishing

her God-speed along the path of peace and prosperity, always, of course, keeping enough silver in hand to cash India's own paper currency? The word of the Chinese merchant has the reputation of being as good as his bond; and as China is a member of the League of Nations, and is desirous of taking the place in the world to which her great population entitles her, I have no doubt that the money so lent by India would be perfectly secure. It would also have the effect of raising India in the scale of nations, and at the same time would help greatly to regain for the Empire the good will which England has lost.

India has influenced China peacefully in the past, and can do so again, but only in proportion to her own strength. It is to be hoped, therefore, that for the sake of China and the cause of international peace and good will among men, the Statutory Commission will see that India's new Constitution is so framed that it will help not only India, but her great neighbour as well.

On a previous page I have given a description of India's ancient village republican system of Government. As there is a strong Mongolian element in the Indian empire, which the Statutory Commission will doubtless consider in making its recommendations, it may not be amiss here to give a description

of China's ancient village republican system which would seem to be very similar to India's ; and bears striking witness to the desirability of leaving the individual and the village to manage their own affairs and arrange their own taxation, with a minimum of interference on the part of either the Central or Provincial Governments. The description is taken from a book entitled *Democracy and Finance in China*, by Mr. Kinn Wei Shaw, Ph.D., Secretary of the China Institute in America, New York City, formerly Professor in Government College of Law and Political Sciences, Hangkow, China. The book is edited by the Faculty of Political Science, Columbia University, and may, therefore, be considered reliable.

#### “SCHOOL OF LAO TZŪ.

“The fundamental doctrine of the school founded by Lao Tzŭ, who lived about six or five centuries B.C., was natural liberty of the individual. On nearly every page of his immortal work, *Tao Teh King*, or *Nature versus Nurture*, he bears witness to his belief in the principle of non-interference on the part of the government. His motto, ‘Government, do nothing!’, meaning thereby that the less the government does for its people, the more they will be able to care for

themselves, had in reality the same implication as that of the French Physiocracy, 'laissez faire, laissez passer.' On the basis of this principle, he attacked the paternalistic government of his time as the main source of political and social evils. He maintained that the best government is the least government, that is, one in which there is minimum interference by the government and maximum autonomy for the governed. He said :

“ ‘ As restriction and prohibitions are multiplied in the state, the people grow poorer and poorer ; the greater the number of laws and enactments, the more thieves and robbers there will be. So long as the ruler practices non-interference, the people will work out their own salvation ; so long as he preserves an attitude of detachment, they will develop in the right direction ; if only he refrains from undue expansion of governmental functions, they will of their own accord become industrious and prosperous ; and if only he frees himself from avarice and pretension, they will naturally follow his example and return to simplicity and honesty.’

“ From this declaration we see that Lao Tzŭ's government of non-interference is essentially

similar to that which the Physiocrats called the 'ordre naturel.'

"The political utopia of Lao Tzŭ was a collection of small self-governing communities which had entirely freed themselves from unnecessary and vexatious governmental restrictions. These communities may be designated as village states in distinction to the city states which existed in ancient Greece. In one of the concluding chapters of his *Tao Teh King*, Lao Tzŭ described the ideal state in the following way :

" ' In a small state with few inhabitants, let there be aldermen and mayors who possess power over the people but who never use it. Let the people hold their native region in high regard and not seek to leave it for a distant locality or state at the risk of safety. Although they have ships and carriages, let them not seek to journey abroad therein. Although they have armor and weapons, let them find no occasion to display them. Let them return to the old custom of using knotted cords in place of writing. Let them provide themselves with satisfying food, beautiful clothing, tranquil homes, and happy environment. Then shall residents of neighbouring communities, dwelling within sight of one another's homes and

within hearing of the clamour of one another's cocks and dogs, grow old and die without having exchanged visits.'

"Thus it would appear that Lao Tzŭ disapproved not only of government interference, but also of territorial aggrandizement, military aspirations, and imperialistic economic policies, and that he advocated an economic civilization which was agricultural rather than industrial and commercial. For these reasons, his school may be called the Physiocratic school of ancient Chinese economic philosophy.

"Lao Tzŭ held that, as a natural result of the application of the principle of government by non-interference and government in the form of a loose confederacy, which was in reality a composite body of numerous village republics, government functions would be reduced to a minimum, and the burden of taxation would be lightened. In his opinion, the safeguards against the exploitation of a people by its government were limitation of bureaucratic activities and strict observance of the rule of governmental frugality. The first of these safeguards was a problem of practical government; the second, one of practical economy. Both were considered by him as pre-requisite to a moderate system of taxation.

'In running a government,' he said, 'liberality without frugality rings the death-knell of the nation.' He also declared, 'The people starve because those in authority devour too many taxes.'

"In connection with Lao Tzŭ's insistence on the necessity of governmental economy, it is of interest to recall the words of Frederick the Great, who believed that onerous taxation, levied without regard to the exhaustion of the source of national revenue, would inevitably bring a nation to bankruptcy. The statement as quoted by Roscher in his *Finanzwissenschaft* reads: 'The state will bankrupt itself if it adopts the policy of saying, "I need so much; raise the money," rather than, "I have so much, and can therefore spend so much." Both of these philosopher-statesmen believed not only that the people should be taxed in accordance with their ability to pay, but that they should be freed from oppressive taxation so that they might have a reserve or surplus ability to pay.

"The politico-economic principles of Lao Tzŭ have occupied a unique position in the development of Chinese fiscal thought. He impressed upon the consciousness of his race for all time a distaste for paternalistic government and a

belief in the importance of village autonomy. Although the school of Confucius has again and again attained ascendancy in political and educational fields, the fiscal philosophy of Lao Tzŭ has, as a rule, remained that of the Chinese statesmen. The most successful economist-rulers in the fiscal history of China, especially those of the periods of reconstruction after the turmoil of great revolutions, have for the most part been the faithful students of this remarkable philosopher. Foremost among these were Emperor Wên of the Former Han dynasty and Emperor Wên of the Sui dynasty, both of whom brought about an extraordinary economic prosperity by carrying out the policy of light taxation and rigid economy in government expenditures."

#### SCHOOL OF MO TI.

"The crux of the fiscal philosophy of Mo Ti was economy. He held that in regulating governmental expenditures, the first question to be asked is, 'Is their increase necessary or can public affairs be managed without such increment?' He believed that all government disbursements should be carefully scrutinized and every unnecessary or wasteful item eliminated. He also



maintained that every increase of government expenditure and service without proportional increase of public benefit should be avoided if the government is to be wisely and efficiently conducted.

“ But his contribution to the development of Chinese fiscal thought is not simply this emphasis on the need of governmental frugality. He pointed out that the economical administration of a state is made possible only by the elimination of expenses for war or for the preparation for war. He attacked militarism and its foster parents, short-sighted patriotism and one-sided nationalism, upon humanitarian as well as economic grounds. Indeed Mo Ti has sometimes been called the Jesus Christ of China, because of his great spirit of sacrifice, and his doctrine of universal love and universal peace, two of his celebrated ‘ ten commandments.’ ”

Mr. Kinn Wei Shaw's book closes with the following passage which in itself provides the bone and sinew, the flesh and blood of the Constitution which India and the world want to-day. ‘

“ We, the Chinese people should, however, hold no pessimistic views. We have much to learn from the West in order to enrich our native inheritance ; but we are fortunate in that we may

deduce many lessons from our ancient philosophers and statesmen. And we may fittingly close our discussion with a few passages from the *Great Learning*, a Confucian text, which comprises the fundamental principles of Chinese political democracy and fiscal ethics. The passages read :

“ When a ruler loves what the people love, and hates what the people hate, then he is what is called the parent of the people.

“ Calamities cannot fail to come down upon the one who outrages the natural feeling of men, that is, the one who loves those whom the people hate and hates whom the people love.

“ Let the producers be many and the non-producers few. Let there be efficiency in production and economy in consumption. This is called a great course for the production of wealth, and it will lead to a constant economic, as well as fiscal, prosperity and sufficiency.

“ Virtue is the root, and wealth is the result. The former is of primary importance, while the latter is of secondary importance.

“ Therefore, in a state, pecuniary gain is not to be considered prosperity ; but prosperity will be found in social righteousness and fiscal justice.”

This might have been written by Ruskin or Mr. Gandhi. And the same thought was expressed by Warren Hastings when, in an introductory preface to Wilkin's translation of the *Bhagvat Gita*, he wrote "it is on the virtue, not the ability, of their servants that the Company must rely for the permanency of their dominion."

China's huge system of village republics can be linked up into a nation only by the co-operative method. Co-operation is in the air at present ; and India, which is now the leading co-operative country of the world, though she has still a very long way to travel, should be China's guide along that path of peaceful progress whose foundation is based on faith.

### THE STAR OF INDIA.

Be it understood clearly that, in asking the Government of India to enter and take possession of the greatest unoccupied banking field in the Empire, I am not asking for Government money. All I suggest is that, Government should now call up the people's own money which is their labour, and so act on the teaching of the first 25 words of the world's greatest economic book, the *Wealth of Nations*, which I here repeat :—

“ The annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life which it annually consumes.”

No matter what Royal Currency Commissions may say, or Statutory Commissions may do, no other power and no other fund but the labour of India's brains and hands will ever build Gandhistan. Any other system of finance, or any mere re-shuffling of votes, will still leave India poor, disorganised, and disunited, her great temple unbuilt, the bricks still lying scattered and broken.

Party votes create nothing but strife, and the votes with which the British Parliament presented India a few years ago have rent India asunder. To give India votes when she asks for bread, is to give her a stone to sink her when she needs food to give her strength to swim.

The labour of men's brains and hands is the real money, the building power, the money which, humanly speaking, creates all social and material wealth. The thing which goes by the name of Capital, whether it be gold or silver, or notes or cheques, or savings or bank balances or book entries, creates nothing : it is the nominal or counterfeit capital only. Men are the living capital, money the dead. Is the dead to rule the living ? Should

the living wait for the dead ? The new Constitution which India wants is a new banking system which will free her from the paralysing power of both eastern and western *Mahajans*.

The people's labour is the people's money ; and in asking Government to monetize it I am only asking Government to do what banks are doing daily with great profit to themselves. Sir Basil Blackett has said that "idle money means idle manhood." It would have been more scientific, and sounder finance, to have said "idle manhood is idle money."

In asking Government to monetize the brain power of the graduate and the hand power of the r $\acute{a}$ yat—organised co-operatively—to the extent required to keep every able-brained and every able-bodied man fully employed in the re-building of their country, I am only asking that Government should enable the people to use the money—the living capital with which the Almighty has endowed them, and turn it into food for themselves and their country.

Did Sir Basil ever see a gold *mohur* ploughing, or a bank cheque cutting the crop ? It requires not the economic genius of an Adam Smith nor the financial genius of a John Law to understand that Man grows rice, and that money does not. Any

man with an ounce of brain or a *chittack* of intelligence understands this. Financial genius is required to prove that two and two make five, and that the currency rests on gold which is not there. All the financial genius, such as it is, of the west, is now engaged in training all the world to stand on an American gold dollar. It reminds me of the old theological problem of how many angels can stand on the point of a needle.

The scraps of paper which I ask the Government to print and issue will all return to Government after planting and gathering a great crop of food for the people, and a harvest of taxes for the Government. They will also draw into India more of the precious metals to back themselves. They will, in short, fulfil the teaching of Adam Smith by enriching both the people and the Sovereign. If that is not sufficient for Sir Basil, it is good enough for the people.

The banking system I suggest is sound and simple; and, to borrow the words of the Royal Commission, "it is intelligible to the un instructed," whereas I doubt if even the genius of a Calcutta failed B.A. can grasp the system proposed by the Commission, who explain it thus:—

"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.

10. *The Gold Points* are :—

Reserve Bank selling price (London).	=	$\left( \frac{21.484375 \times 480}{4.240909 \times 180} \right)$	=	13.50929 rupees to £1 = 17.76555d. per rupee (say, 17½d.).
Bank of Eng- land buying price.	=	$\left( \frac{21.239583 \times 480}{4.297221 \times 180} \right)$	=	13.18036 rupees to £1 = 18.20823d. per rupee (say, 18½d.).”
Reserve Bank buying price (Bombay).	=	$\left( \frac{21.239583 \times 480}{4.297221 \times 180} \right)$	=	13.18036 rupees to £1 = 18.20823d. per rupee (say, 18½d.).”
Cost in Bom- bay of gold ex Bank of England.	=	$\left( \frac{21.239583 \times 480}{4.297221 \times 180} \right)$	=	13.18036 rupees to £1 = 18.20823d. per rupee (say, 18½d.).”

Such is the great American gold exchange monetary system to which India is to do *pooja*. The Indian pantheon already holds more gods than India knows what to do with. Is there to be added to the 33 millions already in existence this American

Nebuchadnezzar with the feet of gold and the head of clay ?

At an educational conference held in London a few weeks ago, Sir Atul Chatterjee, High Commissioner for India, said :—

“ Poverty and ignorance were the two great problems in India at present. Unless they could remove ignorance they would not be able to remove poverty. This matter did not affect India alone. The strength of the British Commonwealth was the strength of India in many ways ; and until India was strong internally the Commonwealth would remain weak. . . . Caste was breaking down in many ways, and women were wanted to help in building up a new civilisation in its place.”

Sir Atul spoke truly when he said “ the strength of India is the strength of the British Commonwealth.” So also is the weakness of India the weakness of the British Commonwealth. America with her 120 millions is stronger than the British Commonwealth with its 450 millions, because America is organised and India is not. Organise India, wage war on her poverty and ignorance, build up Gandhistan and the new civilisation, and America will be left behind.



India's constitutional problem is an economic problem ; the economic problem is a money problem ; the money problem is a problem of organisation, and the only possible organisers for so great a work as the organisation of 750,000 villages and 320 millions of people are India's young *intelligentsia*. The young men are eager for service, and should now be given the chance to rebuild Gandhistan. The White Shirts' labour is their money, and it now rests with Government to call that money up ; for the harvest truly is great, but the labourers are few.

India has something to give to the world, as well as something to receive ; and the time has come for the Star of India to shine and enlighten the world with the truth that Man is greater than gold ; and to show that India's organised strength can break the gold chain which threatens to enchain the world.

The star now rising in the east—co-operative finance—will guide the wise men of the west out of the darkness of party politics, doles and the shadow of death, into the realm of faith, hope, love, work, for which Mr. Baldwin and all parties are searching.

It is well to see visions and to dream dreams ; for " where there is no vision the people perish."

India's young men see visions of a new India rising from the old. Give them the chance, and they will build the India that is to be,—the temple of Akbar's Dream :—

“ I dreamed

That stone by stone I rear'd a sacred fane  
A temple, neither Pagod, Mosque, nor Church,  
But loftier, simpler, always open-door'd  
To every breath from heaven, and Truth and  
Peace  
And Love and Justice came and dwelt therein.”

*Tennyson.*

I am, Sir,

Yours faithfully,

D. M. HAMILTON.

## **An All-India Bank.**

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In his remarkable victory speech to the Houses of Parliament and the Empire, the King spake thus :—

“ Now that the clouds of war are being swept from the sky, new tasks arise before us. We see more clearly some duties that have been neglected, some weaknesses that may retard our onward march.”

These words of the King apply more appropriately to India than to any other part of the Empire. For there, the neglected duty, the failure to provide that first essential of progress—a banking system for the people—more than any other cause, has brought her onward march to a standstill. That three-fourths of the Empire should still be outside the reach of modern finance, is an astounding fact which reflects no credit on the British Administration, nor on the Houses of Parliament which are responsible, ultimately, for the welfare of India's millions.

Progress of a kind there has been, but how have the people progressed ? Railways have stretched out in all directions ; Cotton and Jute Mills and Tea Gardens and their dividends have expanded ;

have the lives of the workers kept pace ? Bombay is a thriving city ; do the people thrive in the chawls ?

And what of the rural population ? Does it march onward, or stagnate ? The Maclagan Committee answer the question in these words :—

“ The chief object of Co-operation in India was to deal with the stagnation of the lower classes, more especially of the agriculturists, who constitute the bulk of the population. It was found in many parts of India, as in most European countries that, in spite of the rapid growth of commerce and improvements in communications, the economic condition of the peasants had not been progressing as it should have done, that indebtedness instead of decreasing had tended to increase, that usury was still rampant, that agricultural methods had not improved, and that the old unsatisfactory features of a backward rural economy seemed destined persistently to remain.”

This is a serious indictment of a hundred and fifty years of British rule, but unfortunately it is true, and my own personal knowledge and observation confirm it. Some years ago a missionary friend in the Deccan wrote me to say that there, influenza was proving a greater scourge than the plague, and

that of ten couples married by him earlier in the year, only two remained complete. With his small staff he was doing what he could to help the people, but what can one man do among a million ? Two months later he wrote to say that the cotton crop had been almost destroyed by untimely rains. Another two months passed and he wrote to say that the jowari crop, the food of man and beast, had failed for *want of* rain, and the people were selling their cattle for Rs. 3 to Rs. 6 per head. There was no fodder to buy, and no money to buy it. The people's harvest that year consisted of the skins of their cattle. The cattle go, the people remain—to stagnate. There is no friendly financial system to tide them over their evil day ; only the Indian Shylock and his 50 per cent. finance.

Another friend in the United Provinces wrote me about the same time saying that " the people around here are dying like flies, and nobody cares " ; and it would matter little if they did, for no money means no doctors, no help of any kind.

Some time ago in Mayurbhanj State in Orissa, I saw the early paddy wither and die. I was there again a few months later, and found that the winter paddy and the oil seeds had gone the same way. Ten miles off is a range of hills where the rainfall could be held up to irrigate six hundred square miles

of the State at a cost of fifty or sixty lakhs of rupees, and a scheme to carry this out has been under consideration for years. But like so many other schemes, it has been held up somewhere between India and Whitehall, waiting, I suppose, for the sanction which is always late, or for the money which never comes, while the people, like their crops, wither and die as their fathers did a thousand years ago; cockfighting their "feast of reason;" a pice worth of rice spirit their "flow of soul" in a moneyless land.

India may well be described as the minus quantity of the Empire—minus education, minus doctors and medicine, minus sanitation; and in years of scarcity, minus food, minus water, minus clothes, minus oil and all else that makes the wheel of life turn smoothly.

Now all these minus quantities, the water, the food, the cloth, the oil, sanitation, doctors, medicine, education, are traceable, chiefly, to that other great minus, money, that vacuum in the body politic—the banking system for which India waits so wearily.

Whose duty is it to provide a banking system for the people? It is the duty of the Government of India. Why?

1. Because it is the duty of Government to protect the people from oppression.

2. Because it is the duty of Government to destroy a system of finance—the *mahajani*—which brings discredit on British rule and sterilizes the beneficent efforts of Government.

3. Because no one else can arrange the credit money required by 320 millions of people.

4. Because the Government currency note is, at present, the only possible form of credit money, and the only one which the people know and trust.

5. Because the Gold Standard and Paper Currency Reserves which accumulate in the hands of Government will provide the nucleus of the capital required.

6. Because, if it is the duty of Government to provide a railway system which removes the surplus crops of the people, it is equally the duty of Government to provide a banking system which will bring back to the people the profit of their labour.

7. Because, without a banking system which will organise and develop the money power of the people, the Montagu-Chelmsford Reform Scheme or any other, will remain more or less a dead letter; and the Council of State and Legislative Assembly will remain paralysed and powerless to uplift the people.

8. Because, without a banking system to finance the great industry of the country, real progress is impossible.

Now, a banking system to finance 320 millions of people implies two things : on the one hand, ample resources to lend, and on the other, ample credit on which to borrow. Let me say a word or two regarding the resources available. In Europe, the banks depend chiefly on deposits for their resources, but in India the resources of the masses being practically nil, their deposits are the same. I might also point out that deposit banking never develops fully until metallic money has been replaced by paper. Therefore, if India is ever to develop a large system of deposit banking, the one rupee note must displace the silver rupee. The reason why deposit banking follows the development of the paper currency is simple. Silver money keeps if hoarded, paper money perishes. To save its life, the owner of the currency note is forced to bank it ; and, if the Government has the courage of its convictions, it will push the one rupee note all it can. If it does so, it is possible that ere long, the damp and mildew and the white ant, to say nothing of the dacoit, will do more to develop deposit banking in India, than Government has done in the last hundred years. The Co-operative Credit Societies, as they spread, will prove to be the most powerful agencies for the diffusion of the paper currency ; and, with the growth of deposit banking,



will also prove to be the most powerful agencies for the re-absorption of the silver which now goes underground while the Controller of Currency looks on, unable to control it. Deposit banking will absorb and keep above board all surplus currency, whether it be silver or paper.

If, however, India is soon to begin her onward march, it would be well not to wait for deposits. Where then shall we find the resources to finance 320 millions of people ? We shall find them in the labour of the people, and in the paper currency and gold standard reserves of the Government. These reserves could be made to yield vast sums of good credit money which only await the creation of a banking channel to flow out and fertilize the country, and set India a-going on her onward march. At a Government Co-operative Conference in Simla some years ago I drew attention to the unfairness of investing India's money reserves in England and elsewhere, while the people of India were starving for money. And I hope India's publicists will keep an eye on these reserves, and insist on their being utilised to build up a modern credit system for the people, and see that the money is used for India's good. For the loss to India by the present system of investing the money outside of the country, runs to hundreds of crores, or hundreds of millions

sterling, in the course of a few years. The appended statement will explain how these reserves, if handled by a modern banking organisation such as the proposed All-India Bank, would finance every branch of the body politic.

So much for the resources available. What about the credit of the three hundred millions who are eager to borrow ? What is that credit worth ? An acre or two of impoverished land, a pair of lean cattle, an eight-anna plough, a dry cow, a two-rupee goat, represent the assets of the borrower ; who will trust him ? The function of a bank is to monetize trust or credit, but if the credit is not there, the bank is powerless to monetize it with safety. The development of trust or credit is, therefore, one of the chief tasks awaiting the attention of Government. Credit or trust is the key to all industries, but trust does not grow a foot in a night like the bamboo in June. It is a delicate plant of slow growth. It requires for its cultivation carefully trained gardeners, thousands of them, and the they sooner set to work the better, if the three hundred millions are ever to begin their onward march.

What India requires is the old Scottish credit system applied co-operatively. As the Scottish banks manufactured and issued the instruments of

credit (£1 notes) to the extent which the borrower could be trusted to repay, so the credit of the people of India must be organised collectively, and monetized by the Government currency note, to the extent which the organism, *viz.*, the co-operative credit society can be trusted to repay. There is no danger here of an inflation of the currency, for the money is issued only in exchange for solid work and solid assets, and it returns. The old Scottish banker understood finance. He perceived the truth that Man, not money, whether gold or silver or paper, is the creator of wealth, and in the light of that truth he set the Man to work by lending him a £1 note which cost next to nothing. That scrap of paper did its work quite as well as a gold sovereign, and cost just about £1 less. The old Scottish banker had the financial genius to see that an additional bag of oatmeal worth twenty shillings was a good enough return for the loan of a scrap of paper worth nothing. He grew oatmeal from pure paper seed, and so Scotsmen began to grow stout. He did not regulate his issues of notes by the ounces of gold lying dead in an Edinburgh vault; and he was patriotic enough to care less about gold bars lying dead in Threadneedle Street, London. He condemned in advance the Bank Act of 1844, which paralyses industry by making money still scarcer and

dearer when gold is scarce—an Act of Parliament which is suspended or kicked aside in every great national crisis, as a source of danger to the State. The old Scottish banker anticipated the opinion of the high authorities referred to by the Royal Commission on Indian Currency and Finance, who have expressed the view that the circulation of gold is beginning to be regarded as a sign of a backward civilisation. The old Scottish banker based his issues on the quality of the Man in front of him, not on the quantity of gold behind him. He based his issues on goods to be created, not on goods or gold or silver already in existence. If gold and silver were scarce, all the more need that oatmeal and potatoes should be plentiful. Oatmeal for his hungry countrymen, with a five per cent. picking for himself, in return for a scrap of paper which came home and disappeared after gathering the harvest, was sound enough finance for his countrymen and himself, and is for us, too, even if all the gold and silver mines of the world should close down. This is the system of finance which the world needs to-day, and the system to which India must aspire.

Inflation of the currency arises from money being more plentiful than goods. The monetization of labour by the Scottish credit system will increase the supply of goods, without increasing the supply

of money, and will draw into India more of the precious metals, in payment of her increased exports. There will be an increase both of goods, and of gold and silver; and possibly a fall in food prices, the result of abundant supplies. Therefore, as soon as possible, let the labour of the people be organised and monetized, co-operatively, by Government, for there is no other way of financing them. It cannot be too strongly emphasised that no joint stock banking system, however many its branches, can ever reach, individually, the tens of millions of small men who are crying aloud for finance. The people must be financed in groups or not at all. The choice before all India to-day lies in Co-operative Banking and progress, or the *mahajan* and stagnation.

The pick of India's young men are wanted for this great work of rural organisation and regeneration. The time has come for Government to frame a definite policy for the development of the Co-operative Movement, and to link up its loose ends to an All-India Bank. A definite period should be fixed for the movement to cover India, say, ten years' time. This will mean the creation of some thousands of new appointments every year, but there will be enough money available to pay these young men, and their talents should not be wasted.

Now let me give you a bird's-eye view of what the employment of these young men will do for India. In British India there are 250 million acres of cultivated land. Assuming that with the help of the All-India Bank and the cheap finance brought to their doors by the organisation of their credit, the people clear a net return of only Rs. 5 per acre, their savings will amount to 125 crores a year. The borrower will soon become a lender, and with the development of deposit banking, will lay this sum every year at the feet of the Finance Minister or whoever else may want it. With money so plentiful the rate of interest will fall, Government  $3\frac{1}{2}$  per cent. paper will rise to par or over, and re-establish the faith of the people in Government and its gilt-edged securities. With money so plentiful, the spectre of famine will for ever vanish ; for the people will sink their own wells of salvation in a dry parched land. With money so plentiful, there will be enough and to spare for teachers and doctors. The 700,000 villages of India will find employment for 700,000 qualified teachers ; and allowing a doctor for every 3,000 of the population, employment will be found for 100,000 qualified doctors. The schools and colleges which are now turning out young men by the thousand to swell the ranks of the unemployed and to breed unrest, will have to be

doubled and trebled to cope with the demand for educated men which will follow the development of the country, and the establishment of the All-India Bank.

And consider the effect on the trade balance of the country. The development of its agricultural resources will stimulate greatly the export trade, while the increased industrial development which the All-India Bank will finance, will tend to check imports. The result of these two operations will be the draining of more and more gold and silver from the outside world, in settlement of the growing balance of trade. "The drain" will then flow eastwards, and provide increasing supplies of metallic money to support additional issues of credit for the development of the country. An additional hundred crores of credit yearly could soon be got out of the increased trade balance. Is this not worth lifting, in addition to the crores saved yearly by the people ?

From the base to the apex the financial system will belong to the people. The people, federated, will own the village societies ; the village societies, federated, will own the Central Banks ; the Central Banks, federated, will own the Provincial Banks ; the Provincial Banks, federated, will own the All-India Bank. It is not a State Bank standing

apart from the people, and dealing them out doles of finance as a favour from above. It is the other way round. It is a People's Bank, which will deal out finance from below, to the State or Government above, as well as to the people below. When the structure is complete, Government need never go outside of India for money. The All-India Bank will supply all the money required, the people will reap the profit, and India will lend to the world.

To give the Co-operative system a start, it may have been necessary at the beginning to call in the outside capitalist both as shareholder and depositor. But Capitalism, as it has existed until now, and Co-operation, are opposing forces which are better apart. The two should, therefore, be separated as soon as may be expedient, while everything possible should be done to encourage the growth of the people's deposits. Outside capital might even now be dispensed with; for, far more credit can be created out of the Gold Standard and Paper Currency Reserves than can be lent safely to the people at the present stage of their development; and the reserves will grow automatically with the growth of the paper currency.

The Gold Standard Reserve which now amounts to £40,000,000 sterling, dates from the time of Lord Curzon. Its object was to keep the rupee



from falling below sixteen pence. It is now an anachronism ; for, in nine years out of ten, the trade balance runs so strongly in India's favour that, in the tenth or adverse year, all that Government need do to keep the rupee from falling below its present rate of 1s. 6d. is to offer six or twelve months' bills on the Secretary of State at that rate *plus* a good rate of interest, and to pay off the bills with the gold proceeds of the Council Drafts sold in London when the trade balance turns in India's favour, as it always does when the bad year is over, —renewing the bills as necessary. Briefly, the position is that, in every decade, the world owes India nine sovereigns for every sovereign that India owes the world. It is, therefore, not very complimentary to India or India's credit that she should be asked to keep the huge sum of £40,000,000 lying in London to meet a very occasional adverse balance which she can pay perfectly well with an I.O.U. redeemable after six or twelve months. Utilised as capital for the All-India Bank, £40,000,000 would support, easily, an issue of two hundred crores of credit money which could be turned on to the productive development of the country, as required.

And there is a still larger supply of credit money lying dormant in the Paper Currency Reserve

which, like the Gold Standard Reserve, has its ultimate source in the fields of the ráyat. I have said that the object of the Gold Standard Reserve was to secure the convertibility of the rupee into sterling at not less than sixteen pence. The object of the Paper Currency Reserve is to secure the convertibility of the paper into silver on demand. Good inconvertible State paper is the most scientific form of currency. It is the only one which has been found able to save the situation in a great crisis ; and it is the form of currency towards which the modern State is reaching. But in a country like India, where credit is still unorganised and undeveloped, it may be expedient for years to come, to back the paper issues by a wall of solid silver, rather than by a wall of paper securities, which, as the war showed, it might be difficult to turn into silver when wanted. What I would suggest, therefore, is, that the securities in the Paper Currency and Gold Standard Reserves be turned into silver as required, and that this silver be made the backing for that development of credit which India must have if she is to keep pace with the modern world. Until a cheque system develops with the growth of education and deposit banking, this credit money must be issued mainly in the form of paper currency, the note being the people's cheque. Working

according to what is considered the safe banking formula of one-third cash reserve against liabilities, the appended statement will give some idea of the credit money which is now lying dormant awaiting an outlet through a modern banking organisation such as the All-India Bank would be. It is not proposed that all this additional money should be issued straight away; far from it. It would be issued gradually, and only to clients who could be trusted to use it productively, and to return it.

The loss which India now suffers owing to the want of a modern credit system is very serious indeed. In a speech dealing with malaria, Lord Ronaldshay, late Governor of Bengal, said that by draining the derelict malarious tracts of the province, crops valued yearly at over two hundred per cent. on the cost of the drainage works, were being harvested. And one hundred per cent. or more, of crops, could be got from irrigation canals and bunds and wells for which India is crying out. All this possible wealth is now lost by the present system of investing India's reserves in England and elsewhere, or by keeping them lying dead in yellow gold. Instead of waiting for famine to come, and then officially declaring it to exist, would it not be wiser to abolish it altogether by handing these huge reserves over to a modern banking institution such

as the proposed All-India Bank, which would utilise them for the abolition of famine, by developing the country's credit and resources ?

The money which accumulates in these reserves has its source, chiefly, in the fields of the rāyat. It is part of the sale proceeds of his crops. The rāyat has, therefore, the first claim to the money, and the Government is in honour bound to link the rāyat on to his own, in the only way he can be linked, that is, by pressing on with the development of the Co-operative Credit Movement, to its natural evolution in the proposed All-India Bank.

The rāyat is a small man, but multiply him by 300 millions, organise his credit and his labour, provide him with a banking system, and he becomes a giant, able to move the world. Finance the rāyat, and the rāyat will finance the Government and the new industrial development, the Municipalities, the City Improvement Schemes, the District Boards, and all else requiring money. Leave him as he is and India will remain what she is, a land of waste and want. Finance the rāyat, take up the neglected duty, give India an All-India Bank, and she will march onward at the head of the Empire, instead of hanging back in the rear where she now is.

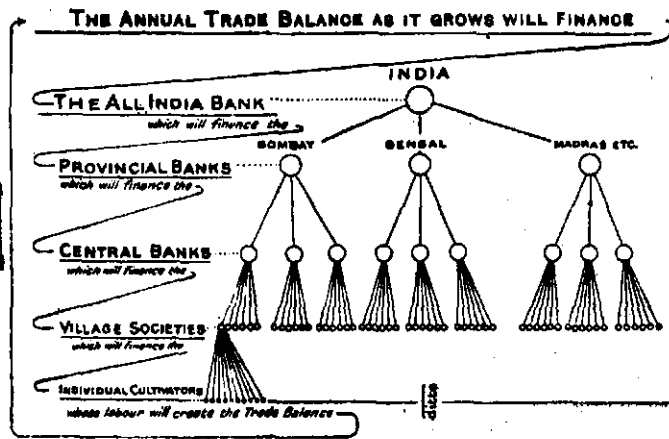
The Scottish credit system transforms the Man into working capital, and makes money his servant. The English credit system makes money the master, and the Man its servant.

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The Reserve Bank might have served as a half-way house on India's onward march. But if India is to reach her goal, the house must be enlarged into a King's palace, which will provide accommodation for her 320 millions of people.

## APPENDIX.

### DIAGRAM EXPLAINING THE STRUCTURE AND WORKING OF THE PROPOSED ALL-INDIA BANK AND ITS ASSOCIATES.



## GOLD STANDARD AND PAPER CURRENCY RESERVES.

Statement showing how the reserves of 235 crores, if worked on banking principles by an ALL-INDIA BANK, could be made to support an issue of 705 crores of credit money.

<i>Liabilities.</i>	<i>Crores.</i>	<i>Assets.</i>	<i>Crores.</i>
Capital consisting of gold, silver, and securities belonging to the people of India ... ..	235	97 crores of gold and silver, and 138 crores of securities convertible into gold and silver ...	235
Note circulation, deposits and current accounts, &c.	705	Government of India Railway 5 per cent. Bonds ... ..	20
		Punjab Government 5 per cent. Irrigation Bonds yielding in addition 100 per cent. in crops ... ..	4
		Central Provinces 5 per cent. Irrigation Bonds, yielding in addition 100 per cent. in crops ... ..	2
		Bengal Government 5 per cent. Drainage Bonds, yielding in addition 200 per cent. in crops ... ..	1
		Co-operative Credit 5 per cent. Bills ... ..	20
		Municipal and District 5 per cent. Bonds ... ..	25
		Industrial Development 5 per cent. Bonds and Commercial Bills ... ..	15
		Balance of credit available for the redemption of rural indebtedness, &c. ... ..	618
Crores Rs. ...	940	Crores Rs. ...	940

Examples of how the money might be invested.

(107)

## Adam Smith and the Ráyat.

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The ráyat is India and India is the ráyat. Viewed from the economic standpoint, the man who feeds the world is the most important man therein, the man by whom we live and move and have our being. Without the ráyat, neither the Bombay cotton mills nor the Bengal jute mills would ever have come into being, and without him they would soon close down. It is the ráyat, more than anyone else, who runs the railways and the British India and Scindia steamers, and without him they would soon run down. It is the ráyat who provides the gold and silver for the gamblers of Bombay, and without him they would have to find some useful occupation. Without the ráyat there would be no Clive Street, no Burra Bazar, no Ralli Brothers. And it is the ráyat who squares the Government budget, though he cannot square his own.

Here is Adam Smith's testimony, from *The Wealth of Nations*, to the value of the ráyat in the body politic.

“The most abundant mines in the world, either of the precious metals or of the precious stones, could add little to the wealth of the world.



A produce of which the value is principally derived from its scarcity, is necessarily degraded by its abundance. . . . Whatever increases the fertility of land in producing food, increases not only the value of the lands upon which the improvement is bestowed, but contributes likewise to increase that of many other lands by creating a new demand for their produce. That abundance of food, of which, in consequence of the improvement of land, many people have the disposal beyond what they themselves can consume, is the great cause of the demand both for the precious metals and the precious stones, as well as for every other conveniency and ornament of dress, lodging, household furniture and equipage. Food not only constitutes the principal part of the riches of the world, but it is the abundance of food which gives the principal part of their value to many other sorts of riches."

This is the testimony of the prince of economists, but the party politician knows little of *political* economy, and not much of any other. He grows no food, only chaff, to feed the people. He raises £400 a year for himself, and wind and dust for the nation.

I have not yet seen the Act which is to call the new Reserve Bank into being, but if it makes no

statutory provision for financing the man who raises "the principal part of the riches of the world" it may as well go straight away into the waste paper basket. The finding of the *Irish Banking Commission* accords with the teaching of Adam Smith and of common sense. The finding of *India's Banking Commission* does not. The *Irish Commission* says, as Adam Smith said, "*There is no such predominating place to be assigned to business or commerce in the Irish Free State as is assignable to Agriculture.*" The *Indian Commission* makes practically no mention of agriculture, and gives the predominating place, in fact the only place and all the money, to business and commerce, which are only one-fourth as important.

The *Indian Finance and Currency Commission* proposes to base India's currency on bars of gold, but it has not had the vision to see that bars of gold and silver come into India only in proportion to the food, etc., which goes out; and if India's money is to be based on gold, and to increase according to her needs, the very first thing to be done is to increase her exports of wheat, rice, etc., but this cannot be done to any extent without providing for the financing of the rāyat.

"If you want more bars of gold," says Adam Smith, "send out more bags of wheat." "If you

want more bags of wheat," says the Irish Banking Commission, "push on with the development of co-operative credit, and for this purpose form an Agricultural Credit Corporation with 188 crores of the gold and silver bars available in the Gold Standard and Paper Currency Reserves." "The business man can look after himself," says the Irish Banking Commission, for, "*Secondly, as is generally the case, the business man is in a better position to protect himself and his own interests than the farmer, certainly the small farmer, usually can be, and whatever argument may exist for special aid to the farmer, can seldom be said to exist in the case of the merchant or manufacturer.*" And yet the Indian Banking Commission proposes to legislate only for the latter. It proposes to hand over to the class which is so well able to look after itself and its own interests, the gold standard and paper currency reserves of 235 crores which belong to the people, and to leave the people out in the cold, without finance or money, and "every other conveniency and ornament of dress, lodging, household furniture and equipage." This will not do. India's representatives, who sit in the seats of the mighty at Delhi, will surely see to it that the interests of the people whom they represent are not sacrificed to the one-fourth who

are so well able to look after themselves. And when India's Finance Minister, with the new Reserve Bank Act, rolls up to the Council House in his well-sprung modern equipage, let him not forget that ancient springless equipage, the byle gharry, and its owner who squares the budget.

## Lord Ripon and the Ráyat.

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The present scarcity in the Bombay Presidency, and the consequent drought in the Provincial Treasury, confirm the truth expressed in the annexed official article on "Droughts and Famines," that—

**All administrative problems, however intricate, can be resolved into factors in which the five acre unit, and the prosperity of the five acre holder, is the most important one of all.**

In short, make the ráyat prosperous and every branch of the Administration will prosper. Let the ráyat starve, and everyone else will starve, from the Finance Minister down to the humble coolie.

The article entitled "Droughts and Famines" appears in the Statistical Atlas published by the Government of India in 1895. It is well worth reading as a piece of descriptive literature, as well as for its economic truth. It is the best description of India that I know.

It will be observed that, as a sequel to the Madras Famine of 1879, the Secretary of State called for an inquiry into the economic condition of

India, and that “ *the words in which Lord Ripon gave this message to the country show that he considered that to strengthen and improve the condition of the cultivators was the leading measure necessary for the increase of agricultural wealth* ” which, as Adam Smith pointed out, “ constitutes the principal part of the riches of the world.” These are the words of Lord Ripon :

“ It is necessary to point out that the agricultural inquiry should not be confined to the mere collection or collation of statistics in the ordinary acceptation of the term. An examination of the portion of the Famine Commissioner’s Report which deals with agricultural inquiry will show that, in recommending with reiterated force an intelligent system of investigation, their final object is to urge through its means, and as a practical outcome of its results, the policy of maintaining agricultural operations at the highest attainable standard of efficiency. The Government of India fully accepts this definition of a most important aim of agricultural inquiry. The maintenance of agricultural operations implies the sustenance of agricultural labour, and the complete provision of agricultural requirements ; and in India this means that cultivators, their

families, and cattle must be properly fed, and their need for labour, irrigating machinery, and agricultural implements adequately met. Now, insufficiency of food, as well as the deterioration or lack of mechanical appliances, must diminish the effectiveness of labour, and thereby reduce the produce of the country. If, therefore, through rack-renting or any unsuitable system of collecting rent, if from inability to obtain capital on reasonable terms, or if from accidents of season and other causes, the amount of produce becomes less than sufficient to provide the sustenance and appliances required by labour and land, it becomes the imperative duty of Government to ascertain whether any legitimate means can be provided to check the degradation of agriculture which must otherwise ensue. On the other hand, if by any means the efficiency of agricultural operations can be increased, a larger amount of produce will be available both for the support of labour and the provision of mechanical requirements, and also for the rent fund from which the land revenue of the country is derived."

Lord Ripon left India before he had time to see that the cultivators, their families, and cattle were properly fed ; but, to carry out his message, the following were the means suggested for the

improvement of the economic condition of the country, and to secure "the larger amount of produce required for the maintenance of the full working power, as well as for the increased efficiency of the vast human machine, the machine of flesh and blood, which is cheaper in its working than it is possible for any machine of steam and iron to be." These were the remedies suggested :

The promotion of railways.

Canal irrigation.

Well irrigation.

The reclamation of waste lands.

The establishment of fuel and fodder reserves.

The introduction of agricultural improvements.

Emigration.

The improvement, where necessary, of the rent and revenue systems.

Well, I understand that the main railway lines are nearing completion, but the flesh and blood machine is still weak. A few weeks ago I read an article in the *Times*, entitled "Malnutrition in India," which said that Lord Linlithgow's Agricultural Commission had been impressed with the sickly appearance of the agricultural worker ; and the writer of the article suggested that this might be due to the absence of ghee in his diet. The railways are the great life savers in famine, and, as



such, Government deserves the greatest praise for their construction ; but they do not seem to have done all that was hoped for in improving either the economic or physical condition of the people. The ráyat is still weak. His banker takes his money, and the hookworm takes his strength.

As regards canal irrigation, I understand that, like the railways, the main schemes are also nearing completion. They have added greatly to the produce of the country, and Government deserves the highest praise for their construction, but the economic condition of the people still remains weak. In Sir Protamdas Thakurdas's minute of dissent to the finding of the Finance and Currency Commission we read that : "*the indebtedness of the Indian cultivator and the masses demands serious consideration. Mr. 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.*" Canal irrigation, therefore, has not done all that was expected of it.

As regards well irrigation, I cannot say what the development has been since the article on "Droughts and Famines" was published, but that there is still great room for expansion, both in well and bund irrigation, the present scarcity in Bombay and Madras proves. A retired Commissioner

of the Central Provinces said to me not so very long ago : " What India wants, even more than canals, is wells." Wells, however, cannot be made to any extent by Government, and they can be made much more cheaply by the people ; but wells cost money, and a sickly people with 600 crores of debt hanging round their necks, are, individually, unable to find the money to make them. Will Sir Protamdas help to set the people free ?

I am unable to say how many acres of waste land have been reclaimed since the article on " Droughts and Famines " was published, but whatever the extent, I imagine that the people who till the land, gather the crops for the mahajan rather than for themselves, as they did on the Sunderbans waste land reclaimed by me, until I bought out the mahajan.

As regards the extension of fuel and fodder reserves, I am unable to say how far this suggestion has been carried out, but until the ráyat can afford to burn coal, I fear he will continue to impoverish his land by burning manure. The problem is a difficult one, but if the ráyat were not the bond-slave of the mahajan, it might be solved by supplying him with the coal which he cannot now afford to buy. There is, I understand, a demand for the improvement of the roads of India, and now that the main railway lines are nearing completion,

Government should take up road improvement in earnest; for there can be little doubt that for passenger and light goods traffic, the motor is destined to supersede the railway, and being so much more flexible, could deliver coal at every villager's door. One rupee per month spent on coal would set free a considerable amount of manure for the improvement of the soil. Afforestation for fuel and fodder reserves, and the improvement of pasture, should, of course, also be pushed on with wherever possible. And, if the people were only their own financial masters they could be encouraged to take up fruit cultivation. With mangoes, limes, oranges, pomolos, guavas, jaks, growing all over the country, not only would the food supply be increased, but the fruit trees would conserve the rainfall and fill the village wells, while a certain quantity of the timber would always be available for fuel, and so set free more manure. But everything turns on the financing of the rāyat, and until he is financed he has no choice but to burn his cow manure and impoverish his land and himself, and go without the fruit and the milk and the ghee which are so necessary for the health and strength of the flesh and blood machine and family.

About ten years ago I planted some orange trees in Orissa. A few years later I saw the first

orange ripen. It looked beautiful, but when I plucked it and cut it open it was dry as dust. A few weeks ago my manager wrote to say "there has been a marked improvement this year in the taste of the Malta oranges. A year or two ago we gave the trees a dressing of lime, and again this year a heavy dressing of cow dung. This has had the effect of sweetening, and, I believe, adding greatly to the quantity of the juice. We scarcely found any that had dried up inside, as was usual in former years."

With regard to agricultural improvements as a remedy for the poor economic condition of the country, some good work has been done in the production and distribution of improved seed; but so long as the profit from these improvements goes, chiefly, to his banker, the rāyat is not likely to take them up as enthusiastically as he would if the profit came to himself.

Regarding emigration as a remedy for India's ills, a good many thousands of people have left their native land for South Africa and elsewhere, not always with the happiest results, but these few drops in the ocean can do little to refresh the 320 millions who remain.

The last remedy suggested in the article on "Droughts and Famines" was the improvement,

where necessary, of the rent and revenue system. This question was dealt with during the Viceroyalty of Lord Curzon, and the result of the inquiry then held will be found in the *Land Revenue Policy of the Indian Government*, published by Government, in 1902. The summary of the finding was that—

“The true function of Government is to lay down broad and generous principles for the guidance of its officers, with becoming regard to the traditions of the Province and the circumstances of the locality, and to prescribe moderation in enhancement, and sympathy in collection. . . . The Governor General in Council believes that the existing system, if pursued upon the lines that have been indicated, is both well suited to the present conditions of the country and compatible with its future development, and that the revenue which it provides, and which is more lenient in its incidence than at any previous stage of Indian history, is capable of being levied from the people with surprisingly little hardship and without discontent.”

It cannot be denied that in the remission and postponement of land revenue in times of scarcity, Government does carry out the principles of moderation and sympathy here laid down ; but

still the people remain weak, physically and financially.

I have gone over all the remedies suggested in the article on "Droughts and Famines" for the improvement of the physical and economic condition of the country, but they have failed to lift the 600 crores of debt, and so the masses remain where they were, without money or education or doctors or medicine, etc., etc. There was, however, another remedy hinted at by Lord Ripon, which his officers very strangely overlooked when giving effect to his message, and that was Finance. "If," said Lord Ripon, "*from inability to obtain capital on reasonable terms . . . the amount of produce becomes less than sufficient to provide the sustenance and appliances required by labour and land, it becomes the imperative duty of Government to ascertain whether any legitimate means can be provided to check the degradation of agriculture which must ensue. On the other hand, if by any means the efficiency of agricultural operations can be increased, a larger amount of produce will be available both for the support of labour and the provision of mechanical requirements, and also for the rent fund from which the land revenue of the country is derived.*"

Here Lord Ripon placed his finger on the weak spot in the body politic, but it was not until Lord

Curzon came that the only sure remedy—Co-operative Credit—began to be applied. There are now 70,000 village co-operative credit societies engaged in the uplifting of the people and the improvement of the economic condition of the country—a wonderful record of achievement, of which the Indian civil service may well be proud ; but when we remember that there are 700,000 villages in India, and that the workers are few in relation to the work still to be done, I think I am justified in repeating the words of Lord Ripon that “ *it is the imperative duty of Government* ” to accelerate the pace, for the 600 crores grow larger as time passes, and the danger is that the harvest may never be reaped.

“Hasten slowly” say the “ca canny” men. India has done so for the past 150 years, and the pilgrims have fallen into the Slough of Despond, 600 crores deep. Will Sir Basil Blackett not lend a hand to pull them out, and lead the way to the Delectable Mountains ? Would the Finance Minister not also be in the Slough if he had to pay 25 to 100 per cent. for his finance, instead of 4.69 ? Here is a great seed bed for the poison crop of the Bolshevik, and if we do not keep ahead of *him* he will get ahead of us, as he has done in China.

Lord Ripon was the father of Swaraj. Will his offspring not join up to lift the 600 crores of debt from the back of the people, so that India may have a chance to move forward and take her place among the self-governing dominions of the Empire? When the King Emperor laid the foundation stone of New Delhi he meant the Council House to be, not a home for the creatures of the jungle, as the party system threatens to make it, but a place in which to breed good milk cows, and manufacture pure ghee to nourish the people. The five acre bricks still lie scattered and broken. Will the Council of State and the Legislative Assembly not unite to gather and build them into the Temple of Akbar's dream, by seeing that the people get their rightful share of the 235 crores of rupees which the Finance and Currency Commission proposes to hand over to the small minority, who are so well able to look after themselves?

I dream'd

That stone by stone I reared a sacred fane  
 A temple, neither Pagod, Mosque nor Church,  
 But loftier, simpler, always open-doored  
 To every breath from heaven, and Truth and  
 Peace

And Love and Justice came and dwelt therein.

*Tennyson.*



## Lord Curzon and the Ráyat.

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In a previous paper I showed how Lord Ripon looked to the improvement of the physical and economic condition of the ráyat, for the uplifting of India. I shall now show the importance which that other great friend of India, Lord Curzon, attached to the amelioration of the lot of the ráyat, who "should be the first and the final object of every Viceroy's regard." The following is the picture which Lord Curzon saw as he left India for the last time. It is taken from his farewell speech :—

" Amid the numerous races and creeds of whom India is composed, while I have sought to understand the needs and to espouse the interests of each, to win the confidence of the Princes, to encourage and strengthen the territorial aristocracy, to provide for the better education, and thus to increase the opportunities, of the educated classes, to stimulate the energies of Hindu, Mohammedan, Buddhist, and Sikh, and to befriend those classes like the Eurasians who are not so powerful as to have many friends of their own—my eye has always rested upon a larger

canvas, crowded with untold numbers, the real people of India, as distinct from any class or section of the people.

But thy poor endure  
And are with us yet ;  
Be thy name a sure  
Refuge for thy poor,  
Whom men's eyes forget.

“ It is the Indian poor, the Indian peasant, the patient, humble, silent millions, the 80 per cent. who subsist by agriculture, who know very little of policies, but who profit or suffer by their results, and whom men's eyes, even the eyes of their own countrymen, too often forget—to whom I refer. He has been in the background of every policy for which I have been responsible, of every surplus of which I have assisted in the disposition. We see him not in the splendour and opulence, nor even in the squalor, of great cities ; he reads no newspapers, for, as a rule, he cannot read at all ; he has no politics. But he is the bone and sinew of the country, by the sweat of his brow the soil is tilled, from his labour comes one-fourth of the national income, he should be the first and the final object of every Viceroy's regard.

“ It is for him in the main that we have twice reduced the salt-tax, that we remitted land

revenue in two years amounting to nearly 2½ millions sterling ; for him that we are assessing the land revenue at a progressively lower pitch and making its collection elastic. It is to improve his credit that we have created co-operative credit societies, so that he may acquire capital at easy rates, and be saved from the usury of the money-lender. He is the man whom we desire to lift in the world, to whose children we want to give education, to rescue whom from tyranny and oppression we have reformed the Indian police, and from whose cabin we want to ward off penury and famine. Above all let us keep him on the soil and rescue him from bondage or expropriation. When I am vituperated by those who claim to speak for the Indian people, I feel no resentment and no pain. For I search my conscience, and I ask myself who and what are the real Indian people ; and I rejoice that it has fallen to *my* lot to do something to alleviate *theirs*, and that I leave them better than I found them . . . . Perhaps my voice for India may not always be identical with that of all her sons, for some of them, as I have said, see or speak very differently from me. But it will be a voice raised on behalf not of a section or a faction, but, so far as the claim may be made, of all India.

And in any case, it will be of an India whose development must continue to be a British duty, whose fair treatment is a test of British character, and whose destinies are bound up with those of the British race. So far as in me lies, it will be a voice raised in the cause of imperial justice and fair dealing ; and most of all of seeing that Indian interests are not bartered away or sacrificed or selfishly pawned in the financial or economic adjustments of Empire.

“ A hundred times in India have I said to myself, Oh that to every Englishman in this country, as he ends his work, might be truthfully applied the phrase, ‘ Thou hast loved righteousness and hated iniquity.’ No man has, I believe, ever served India faithfully of whom that could not be said. All other triumphs are tinsel and sham. Perhaps there are few of us who make anything but a poor approximation to that ideal. But let it be our ideal all the same. To fight for the right, to abhor the imperfect, the unjust, or the mean, to swerve neither to the right hand nor to the left, to care nothing for flattery or applause or odium or abuse—it is so easy to have any of them in India—never to let your enthusiasm be soured or your courage grow dim, but to remember that the Almighty has placed your hand on

the greatest of His ploughs, in whose furrow the nations of the future are germinating and taking shape, to drive the blade a little forward in your time, and to feel that somewhere among these millions you have left a little justice or happiness or prosperity, a sense of manliness or moral dignity, a spring of patriotism, a dawn of intellectual enlightenment, or a stirring of duty, where it did not before exist—that is enough, that is the Englishman's justification in India. It is good enough for his watchword while he is here, for his epitaph when he is gone. I have worked for no other aim. Let India be my judge."

Lord Curzon has gone, but his work remains, to be followed up. He gave to India the best of what he called his poor health and strength, and he drove the plough forward in his seven years' strenuous work; but the harvest has not yet been reaped. "Speak to the children of Israel that they go forward" said the Almighty to the Jews, at the Gulf of Suez; but the children of India cannot go forward across the Gulf which lies between them and the promised land—the land flowing with milk and honey promised by the British Raj—while their feet are shackled to 600 crores of debt.

The greatest of Lord Curzon's ploughs was his Co-operative Credit Societies Act. Twenty years

have passed since he left India, but the plough is not yet near the end of the furrow. In 630,000 of India's 700,000 villages, the Indian poor, the patient, humble, silent millions whom men's eyes, and the eyes of the Royal Currency and Finance Commission, have forgotten, still wait for money, and for the teachers and doctors who never come. Under the flag which stands for freedom, three fourths of the British Empire still sit in darkness, if not in the shadow of death, chained to the mahajan. The rāyat, with the help of good monsoons, is sending Sir Basil Blackett home with flying colours. Is Sir Basil going home, leaving the rāyat with his colours drooping at half mast, drowned in 600 crores of debt? Would this be playing the game?

When I had the honour of serving for a cold weather session on the Council of Lord Curzon, his Finance Minister, Sir Edward Law, asked me to say a word for agriculture, and promised to back me up. I did my part and he did his. Will the Farmer Viceroy's Finance Minister not also invite the Council of State, and the Legislative Assembly to say a word for agriculture and back them up? I remember going out early one morning with Sir Edward Law to see a new cheap iron plough, the invention of a Bengali engineer. Sir Edward, like

his countrymen of the Irish Banking Commission, realized the importance of the plough in Indian life; and Lord Curzon and he did their best to drive it forward. Will Sir Basil Blackett not also put his hand to India's great plough, Co-operative Credit, and drive it forward, remembering that, -

“ All administrative problems, however intricate, can be resolved into factors in which the five acre unit, and the prosperity of the five acre holder, is the most important one of all.”

When the rāyat can square his budget, Sir Basil's budget will square itself. India can have the greatest bank in the world for the lifting, but she will not lift it until the 600 crores of debt have been lifted from the back of the rāyat. The new Reserve Bank Act, as it stands, is incomplete. It provides for the financing of the commercial interests, the one fourth who, as the Irish Banking Commission have pointed out, are so well able to look after themselves. It makes no provision for the financing of the three fourths, the patient, silent, eighty per cent., who read no newspapers, and have no politics—the real people of India who should be “ the first and the final object of every Viceroy's regard.” And if the rāyat should be the first and final object of every Viceroy's regard, he must also be the first

and final object of the Finance Minister's regard, as well as the first and final regard of the Council of State and the Legislative Assembly. Therefore, if The Imperial Bank of India, which caters for the financial requirements of the one fourth who are the *least* important members of the body politic, is to have the privilege of taking up 30 per cent. of the capital of the Reserve Bank, it is, in Lord Ripon's words, the imperative duty of Government to see that the three fourths who form the *most* important part of the body politic, have the right to take up the remaining 70 per cent. This can be done easily by following, more or less, the lines laid down by the Irish Banking Commission for the financing of rural Ireland, that is, by joining up the Provincial Co-operative Credit Banks into an All India Co-operative Credit Corporation, whose business it will be to finance the people. As I shall show in another paper, there is money enough and to spare, in the Gold Standard and Paper Currency reserves, to finance both the most important and the least important branches of the body politic. The Co-operative Credit branch has now fifty or sixty crores of money at its command, and can, without difficulty, arrange to subscribe the three and a half crores required for its seventy per cent. of the capital of the Reserve Bank. And it can draw



from the Reserve Bank all the credit money required for the financing of the people.

I do not know what was in Lord Curzon's mind when he spoke of raising his voice against Indian interests being bartered away or sacrificed or selfishly pawned in the financial or economic adjustments of Empire ; but I do not hesitate to say that if the great co-operative credit movement, initiated by Lord Curzon for the financing of India's great industry, is to be left out of the Reserve Bank, Indian interests *are* being bartered away, and sacrificed, and selfishly pawned in the financial and economic adjustments of Empire. If the financing of the ráyat is deliberately left out of the scope of the Reserve Bank, it means that India *will* be a pawn in the great gold game now being played by Western financiers. It means that they are afraid of the ráyat, and the power, when organized, of the 250 millions of Indian poor, the patient, humble, silent millions for whom Lord Curzon toiled. For they know that the organized power of the 250,000,000 will draw the gold bars eastwards, in payment of the additional bags of wheat, &c., which will go westwards. The gold base on which they now stand will disappear. But as it melts away and flows eastwards, the Governor of the Bank of England, will learn that man does

not live by gold alone. He will remember, too, that the Bank of England was founded by a Scotsman, and if he wants to understand finance, all he need do is to turn his eyes northwards, and spend a half-crown in the purchase of *The Elements of Banking*, written by another Scotsman, Mr. Dunning Macleod, who will tell him how the old Scottish banker raised oats from pure paper seed, and reaped a golden harvest for his country.

If gold is to be the base of India's monetary system, she too can take a hand in the great gold game, and beat the financiers of the west. Lord Birkenhead told us lately that he knew nothing about finance. I agree; for Lord Birkenhead is an honourable man, and, if he understood finance, he would not allow India's gold to be lent to the British Government and the British Dominions, while India is starving for money. If gold is to be the base of India's monetary system, it follows, as night follows day, that it is the imperative duty of the Government of India to call in all her gold to strengthen that base. There are £40,000,000 of gold securities belonging to the Gold Standard Reserve, which can be sold in London, and the gold proceeds demanded from the Bank of England. Let the Government of India demand this gold now, to strengthen India's gold base. Acting on

the most up-to-date banking practice, as I shall show in a subsequent paper, she can turn this gold into eight times that amount of credit, and use it for the development of the country. All that India has received for the £40,000,000 of gold, are British Government and Dominion Government five per cent. paper securities. India's Provincial Government Securities, or the securities of the All India Co-operative Credit Corporation, would be of far more value. For, in addition to the five per cent. which they would yield to the Government of India, they would, if invested in irrigation canals or Bengal drainage works, or the financing of agriculture, yield one hundred per cent. in crops. This is how it would work out :—

Provincial Government or All India Co-operative Corporation 5 per cent. securities, £40,000,000 mul- tiplied eight times : £320,000,000,	
5 per cent. on which is .. ..	£16,000,000
<i>Add</i> one hundred per cent. of crops	320,000,000

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£336,000,000

Yield from 5 per cent. British Government and Dominion securities, £40,000,000 at 5 per cent. .. .. .	2,000,000
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<i>Annual loss to India</i> by investing her Gold Standard Reserve in British Government and Domin- ion securities .. .. .	<u>£334,000,000</u>
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Is it to be wondered at that India is poor, or that Lord Linlithgow's Royal Agricultural Commission has been impressed with the poor physical condition of the agricultural worker ?

“ There is that scattereth and yet increaseth, and there is that withholdeth more than is meet, but it tendeth to poverty.” So wrote the ancient economist. And so the old Scottish banker read his Bible, and got to understand political economy and sound finance. The Scottish banker scattered and increased. His English brother follows the un-biblical, or what Mr. Gandhi might call the un-heavenly method, and withholds ; but it tendeth to poverty, as I have shown. Let us hope the Finance Minister will play the game, and

Organise the 250,000,000,

Scatter the paper seed,

Gather the golden grain from the west.

## The Ráyat and the Glut.

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The following is the first paragraph of the last report of the Imperial Bank of India :

“ The past half-year has been characterised by abnormally dull trade conditions, low prices of staple produce, and a protracted jute season, all of which combined to bring about a glut of money in the market, and rendered it extremely difficult for the Bank to find remunerative employment for its resources.”

On the other side of the river stands the ráyat, with a very much greater glut of debt, about whom Sir Purshotamdas Thakurdas writes in the report of the Currency and Finance Commission that—

“ The indebtedness of the Indian cultivator and the masses demands serious consideration. Mr. Darling, I.C.S., of the Punjab, estimates that the indebtedness of this class, including even the prosperous canal agriculturalist in the Punjab, is over 600 crores of rupees.”

A strange state of affairs. A glut of money on one side of the river, and a glut of debt on the other with no bridge between. Crores of the Imperial Bank's money lying idle on one side, and 250 millions

of people on the other side crying out for money, and no way of getting it across. Surely there is something seriously wanting in India's banking system when such a thing is possible. Why do the Managing Governors and Directors make no attempt to bridge the river? The security on the other side is good, and the profit is sure.

The explanation is simple. It is, that by their constitution and the nature of their business, English Joint Stock Banks are unable to finance the agricultural industry to any extent, and certainly not to the extent that India demands. Their loans are based, chiefly, on their deposits; and as their deposits are payable, chiefly, on demand or at short notice, they dare not risk lending their money for longer than three months, or perhaps six months at the outside; for should there be a run on the Banks they might be unable to find the money demanded by their depositors. English banks are commercial banks, not producers' banks, and are, therefore, of comparatively little use to India, whose great industry is and always will be, agriculture, which requires long credit. And it goes without saying that it is much more important to grow food, than to move it after it is grown. India must, therefore, have a banking system which will provide the cultivator with the finance which India

requires, and which she must have if she is ever to move forward.

The commercial interests squirmed lately when, with a view to checking gambling in exchange, the Bank rate was raised to 7 per cent. But all India, excepting a small minority, squirms from birth to the burning ghat, under a 70 per cent. bank rate, and no one seems to care. Excepting the small co-operative plank which now bridges the gulf between the glut of money and the glut of debt, there is no crossing between the plenty on the one side, and the poverty on the other.

How long is this state of affairs to continue ? The great mass of the people stands where it stood a hundred years ago. The other day, in the *Times* book club in London I picked up an old History of British India, written by seven high authorities on the various branches of Indian life and administration. Here is the picture painted of rural India in 1844 :

“ The situation of the Hindoo rāyat is still further depressed by the load of debt with which he is usually burdened. Even his slender means are found to tempt the avidity of the muhajims or money lenders, who enrich themselves by charging an interest of 36 per cent on the small loans which he almost constantly requires. It is

said that, in eight cases out of ten, at the beginning of the season, both the seed and his own subsistence are advanced to him till the period of harvest ; consequently when the crop is reaped it does not belong to the cultivator, but is seized by these usurers, whose exactions, with those of the zemindar, would soon crush him out altogether, were it not necessary for their own interest to stop short of his entire ruin."

Such was India in 1844. What of the progress since then ? Here it is, as recorded in the Report of the Maclagan Co-operative Committee of 1913 :

" It was found in many parts of India . . . .

that the economic condition of the peasants had not been progressing as it should have done, that indebtedness instead of decreasing had tended to increase, that usury was still rampant, that agricultural methods had not improved, and that the old unsatisfactory features of a backward rural economy seemed destined persistently to remain."

Coming down another twelve years we find further progress reported in the following quotations from the Statement of the Moral and Material Progress and Condition of India 1924-25. After weighing up the evidence and claiming improvement in some directions, the progress between 1844 and 1925 is recorded in these words :



“ It will thus be realised that the problem of Indian poverty is truly staggering in its dimensions. It has its roots in certain long-standing customs and deficiencies, which inevitably make for distress as the population increases, since the the available resources are confined within traditional limits by a hidebound precedent. As time goes on, it may be hoped that increased development of these resources will gradually create a *per capita* figure of wealth sufficient for India's growing responsibility as a nation. But unless individual initiative, combined with missionary effort on the part of the educated classes, can inspire the Indian agriculturalist with the determination to better his position, it is not easy to see what any Administration can do, save to labour for the spread of scientific agriculture, for the encouragement of thrift by co-operative machinery, and for the education of the masses up to a point at which they will themselves realise the necessity for self-help.”

“ Broadly speaking, the characteristics which we have noticed as typical of the masses of the rural population are true also of industrial labour in the towns.”

And so the *ráyat* and his industrial brother, who is also a *ráyat*, stagger along the path of moral and

material progress, under a glut of poverty truly staggering in its dimensions, and which, instead of decreasing tends to increase. But they reach the burning ghat before they reach the glut of money in the promised land across the Jordan. And their sons pick up the burden and stagger on, to reach the same goal as their fathers—the burning ghat—on the bank of the river without a bridge.

There is a closer connection than people imagine between banking and the burning ghat. Here is another instance of India's moral and material progress, culled from the same volume :

“ Among the most pressing problems of India's public health is the infant mortality. It has been calculated that every year some two million Indian babies die. It may be stated with confidence that one in six, or perhaps one in five, of the infants born in India perish within the first year of life. In crowded industrial cities, the rate is even more lamentable, and it is believed that in certain localities the death rate varies from over 200 to 600 per thousand. In England the corresponding rate averages about 80 per 1,000.”

This lamentable loss of India's young life is due to her lamentable want of money ; for without money, India can never have doctors or teachers.

The mahajan, aided and abetted by the Law Courts, kills the babies, and until he is replaced by a banking system which will reach out a helping hand to every man, women, and baby in the country, the babies will continue to die.

The foregoing is the picture of darkest India, painted by high authorities, and in Government blue books. The same blue books show the way out of the darkness if Government will only follow their advice, which is to be found in the same Moral and Material Progress Report. Here it is :

“ From the survey of conditions presented in the preceding pages of this chapter, it must be plain that the most pressing need of India to-day is a systematic movement for the uplift of the masses, both urban and rural. The stimulus to such an uplift does not at present exist among the people themselves ; and the Administration alone cannot do very much to encourage it. If success is to be achieved, continuous efforts on the part of the Authorities must be supplemented by an impulse to self-improvement on the part of the masses. Perhaps the most powerful stimulating agency in this direction is to be found in the co-operative movement ”

which, combined with the missionary effort on the part of the educated classes, referred to in a

previous quotation from the same authority, is all that is wanted to lead the way from darkness and the shadow of death, into light. The missionaries are here in their thousands, India's educated young men, eager to organise and stimulate their country and their countrymen, and save the babies. But, like other people, missionaries must live, and in another paper I shall show where the money can be found to pay them.

When India's co-operative banking system only wants developing, to form the bridge across which the people will pass from the staggering poverty on the one side to the land of plenty on the other, it is difficult to understand why a great agricultural country like India should be saddled with an Anglo-American banking system which, as it stands, is absolutely useless to India—a system which no one quite understands, and which the American farmers dislike and distrust; and which from its very nature cannot supply the long term credit which India must have if she is ever to move forward.

Listen to what the American farmers think of the great American Federal Reserve Banking system. In a recent article in the *London Times*, entitled "The President and the Farmers," this is what we read :

“ External questions, though they may become nine-day wonders and cause lively but brief storms, have been throughout but a secondary business. To senators and congress men, all foreign figures pale their ineffectual fires beside the figure of the American farmer continuing to demand redress. Other topics come and go, but Farm Relief remains—to divide and weary the sixty-ninth Congress as it has wearied so many of its predecessors . . . The farmers have not only the power to make themselves heard: they are to-day the most aggrieved section in the country. American history is full of its agricultural trouble ” (India is a thousand times fuller). “ A steady chorus of dissatisfaction, particularly over financial policy, connects the stout declaration of a Middle-Western Senator last year—that the American farmer would hit every head in sight if he was denied relief—with the Populist party of the '90's and the famous Mrs. Lease's advice to the Kansas farmers to ‘ raise less corn and more hell.’ But the present position dates from the overproduction of the war, the developments of banking policy, and the slump of 1921. The farmers suffered more than the rest of the country and have not shared as fully in the revived and expanding prosperity.

“ The first stage of relief, which ended in 1923 with the passing of the Agricultural Credits Act, was primarily concerned with supplying, through bodies like the War Finance Corporation, short term credit to farmers who attributed most of their ills to the Federal Reserve Board, an institution which is not the less thoroughly disliked and distrusted for being but dimly comprehended. The advance in the Federal Reserve Board's discount rates, the declining prices and credit liquidation, bred the conviction that the farmer had been forced to sacrifice and to sell that the banking system might be saved. The farmer demanded and received much greater credit facilities.”

And they demand a lot more, for the farmers claim “ the moral right to live as well as other Americans,” and if they do not get what they want they mean to do their best at next election to dethrone President Coolidge. Yet this is the banking system which India's Banking Commission wants to foist upon India, whose agricultural industry, in relation to its population, is three times greater than that of America. Since the beginning of British rule, and before it, the ráyat has been raising hell for himself, and rice and wheat for other people. The time has come to reverse the process.

The Federal Reserve banking system is simply the American edition of the English Bank Act of 1844, with credit somewhat more elastic, but not elastic enough to reach the American farmer. The Indian farmer wants long term credit, and plenty of it, to pay off his age-long debt, and to give him a fresh start in life. He needs long credit for irrigation bunds, and for wells to tap the underground monsoons. In recommending long term credit for the repayment of money advanced to the people for the construction of wells, this is what Sir Colin Scott Moncrieff's Irrigation Commission of 1901-3 said :

“ *Para.* 194. This policy of offering long periods of repayment should be followed in all parts of India. For there is no part in which there is not great room for the extension of agricultural improvement, or in which the State ought not to encourage such extension to the utmost of its power. But in tracts secure from famine or severe scarcity, the State will not be justified in running extraordinary risks, and in such cases a strict estimate should be made of the life and durability of the improvement. Following these principles then, we recommend, either that no maximum period should be prescribed by the law, or that the maximum for the whole of India should

be far longer than the existing maximum of thirty-five years. In view of the considerations stated below, fifty years would be a suitable term."

The great canal irrigation programme of 44 crores, laid down by the Irrigation Commission, is now drawing to a close. But what has been done to finance the rāyat in order to enable him to carry out the still larger programme of well and bund irrigation which the Irrigation Commission suggested should be carried out by the people themselves? What has India's Banking Commission recommended for the purpose? Nothing, absolutely nothing!

In the days before the boon of the party politician was bestowed upon India, the Honourable Mr. Charlu was one of the Madras representatives on the Viceroy's Council. He was the humourist of the Council. In explaining how they administered famine relief in the benighted Presidency, he said they fed the fat men first, on the ground that the thin men had already proved their ability to starve. This is the principle on which India's Anglo-American Banking Commission proposes to allocate financial famine relief to India. They recommend giving the whole of the 235 crores in the Paper Currency and Gold Standard Reserves to the fat men who form the one-fourth and least



important part of the body politic, so that they may become fatter and fatter ; and nothing at all to the lean men who form the three-fourths and most important part of the body politic, because they have so well proved their ability to starve by getting along somehow on a 70 per cent. bank rate, since the commencement of British rule. The fat men, the traders and gamblers in cotton and jute, in wheat and rice, and the fat men who worry the Government by gambling in exchange—all the fat men who raise nothing—are to have all the money they want at less than 7 per cent., while the lean men, who raise the food which, as Adam Smith says, constitutes the principal part of the riches of the world, and the abundance of which gives the principal part of their value to many other kinds of riches, are to have no share in their own money reserves. They have proved, thoroughly, their ability to starve ; therefore, let them starve. The man who, if he gets access to his own money, will make food more abundant and save the babies, is kept out of his money, in order to let the fat man in. The lean men, who, if organised and financed co-operatively, will make India a united nation, are to stand aside to let the fat men grow more fat. With the thousand rupees which he borrows to sink a well, the lean man will raise for India 50,000

rupees worth of food in 50 years. The fat man will raise nothing. He is to get all he wants of the peoples' money, while the people are to continue staggering along the hard path of moral and material progress, starving for money and for food.

This is the system of finance which we are told is going to make India's currency "simple, certain and stable; intelligible to the uneducated, and with a backing that is tangible and visible."

The Anglo-American banking system, which is to be foisted on India, is, as it stands, grotesquely incomplete, in that it makes no provision for the financing of the great industry by which India lives. It is neither simple, nor certain, nor stable; and the gold bars will neither be tangible nor visible; for they are to go underground in Bombay, to be handy, I suppose, for strengthening the dwindling gold base of the effete financial system of Europe. In these hard times it does one good to listen to Mark Twain, and to hear how the American farmer enjoys the joke.

If the new Reserve Bank is not going to supply the people of India with the long term credit which India wants, and which India must have if she is to work out of her 600 crores of debt, and make bunds, and sink wells to tap the underground monsoons, so that there will be abundance for all, it will do

no good to India. It will be merely a huge glut of credit without an outlet, and the people will remain on the desert side of Jordan with their glut of debt. With the Imperial Bank linked on to it, *plus* The Peoples' Bank—the Co-operative Credit Corporation—to be the channel through which the credit will flow out to fertilise the barren fields of India, the triple combination will, in time, give India the greatest bank in the world. Without this combination, India will remain disorganised and disunited. She will never be a nation. “And if a kingdom be divided against itself, that kingdom cannot stand.”

India may, however, trust the Farmer Viceroy to see that India's farmers get justice, for,

**“All administrative problems, however intricate, can be resolved into factors in which the five-acre unit, and the prosperity of the five-acre holder, is the most important one of all.”**

## **The Ráyat and the One Rupee Note.**

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When my old friends who wielded the Retrenchment Axe so vigorously lopped the One Rupee Note from the tree of India's economic life, they struck a deadly blow at the moral and material progress of the country ; for without the development of her paper currency, especially the one rupee note, India can have no future worthy of the name. As paper is cheaper than silver, and as a paper rupee costs about one rupee less than a silver one, it is difficult to understand why the one rupee note should have been lopped off on the ground of economy. And why a poor country like India should indulge in the luxury of money made from the precious metals when all the wealthy countries of the world are discarding the precious metals in favour of paper money, is also difficult to understand.

The loss, however, which India suffers by using silver money instead of paper is trifling compared to the loss which she suffers owing to the want of a monetary system elastic enough to turn every able-bodied man on to productive work. Such a system must be one of credit, not of cash ; and at

the present stage of India's development, with nearly 300 millions of people who can neither read nor write, the credit can be supplied in sufficient quantity only by notes, chiefly small notes—one rupee notes—to meet the requirements of small men.

While I have felt called on to criticise the Currency and Finance Commission for its failure to provide finance for the great industry by which India lives, I cannot but praise the Commission for reinstating the one rupee note, for without it India will remain in the Slough of Despond, with no prospect of ever getting out. But while the Currency and Finance Commission has reinstated the one rupee note it has not explained how to get it into the life of the country. This is explained very clearly in that classic of the financial world, Walter Bagehot's *Lombard Street*, of which I append an extract.

Bagehot tells us that no nation ever developed a system of deposit banking without first establishing a paper currency "of small amount that can supersede the metal currency." And that a central bank, such as the Imperial Bank of India, is of no use for the purpose, because it is not in touch with the masses of the people. The agency for a diffused system of note issues must be "a

banker who lives in the district, who has always lived there, whose whole mind is a history of the district and its changes." Only such an agency, Bagehot tells us, "is easily able to lend money safely in the districts."

Clearly, therefore, if India is to develop a system of deposit banking, she must first have a paper currency of small notes, and the only way to distribute these safely is by loans made through the Co-operative Credit Societies, whose managing panchayets know everything about would-be borrowers. From this it follows that, in order to develop both the paper currency and deposit banking, it is absolutely necessary first of all to develop the Co-operative Credit movement, so that it will cover all India ; and until this is done India cannot reap the harvest of moral and material progress which will follow when it is done. It is, therefore, the imperative duty of Government to subsidise the Co-operative Credit movement to whatever extent may be necessary for this purpose. If the Imperial Bank of India, which caters only for the commercial interests, who form only one-fourth and the least important part of India's economic life, is to be subsidised to open more branches, it is vastly more important that the People's Bank, which was established by Lord

Curson to arrange for the financing of the three-fourths—by far the most important part of India's economic life—should be subsidised to open branches all over India.

A banking system which makes no provision for the financing of the great industry by which India lives is of no use to her. Does India need more food, more rice and wheat and jowari and dball ? Then she must have a banking system which will provide these. Does she want better cows, and more milk and ghee ? Then she must have a banking system which will provide these. Does she need more fruit in her diet ? Then she must have a banking system which will provide it. Does she need more sugar and the other things necessary to sweeten her life ? Then she must have a banking system which will provide these. Does she need more bunds, and wells to tap the underground monsoons ? Then she must have a banking system which will provide them. Does she need a banking system which will help to keep the two million babies alive ? Then she does *not* want a bank which will neglect them.

“ Before the Indian peasants who, it must be remembered, are 75 per cent. of India's population, can take much interest in anything outside the daily round and the imminent task

of wresting a living from the soil, the crushing burden of debt under which practically every one of them now lives must be lightened, and the ravages of disease which weaken them, and cause in the aggregate immense economic harm, must be checked."

Thus writes the latest report on the Moral and Material Progress of India. But what provision does the new Reserve Bank make for lightening the crushing burden of debt, or stopping the ravages of disease which weaken the people and cause immense economic harm? None, absolutely none.

I learn from the same Moral and Material Progress Report that, when Mr. Jinnah and other members of the Legislative Assembly took exception to the composition of the Currency and Finance Commission, on the ground that it did not sufficiently represent Indian interests, especially agriculture, Sir Basil Blackett replied that the Commission had been chosen "to represent one interest only, and that is the true interest of India taken as a whole." Accepting this statement, we find on referring to the census of 1921, that, taken as a whole, 73 per cent. of the people are, directly or indirectly, dependent on agriculture, and only 5.7 per cent. are traders. Might I ask Sir Basil what provision the new banking



system makes for financing the 73 per cent. ? If it provides only for the five fat men, and leaves the 73 lean men to starve for money as they have done from the commencement of British rule and before it, it is a sham, a delusion, and a snare.

“Idle money means idle manhood,” said Sir Basil, very truly, on another occasion. According to the most up-to-date English banking practice, which creates 100 per cent. of credit out of 12 per cent. of cash, there are 1,600 crores of idle money lying dormant in the Gold Standard and Paper Currency Reserves. How does Sir Basil propose to let out the idle money to set the idle and half idle lean men to work, so that they too, like the American farmers, may have the right to live as well as their five fat brethren ?

If all material wealth, rice, wheat, clothes, houses, railways, roads, ships, canals, wells, machinery, gold, silver, copper, etc., is produced by the labour of men's brains and hands, it follows, as clearly as day follows night, that the only sound and scientific banking system is one that will provide currency or credit in volume sufficient to keep every able-bodied man fully employed on good productive work. How does the Reserve Bank answer this test ? It makes no attempt to answer it. It is frankly and openly a trader's bank, and

makes no attempt to finance the great industry by which India lives. It is a bank for the five fat men only ; and, being so, the 73 lean men and their wives, the Indian poor, the patient, humble, silent millions who subsist by agriculture, the bone and sinew of the country, and the two million dead babies condemn it, as it stands.

Listen to what the Currency and Finance Commission calls the " Primary task " of the new Reserve Bank :—

" 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 unity 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 make this " intelligible to the uninstructed " I may say it means that, when the gentleman

known as the Currency Authority, considers the price of gunnies and other things to be too high, he will lower prices by raising the bank rate, so that people cannot afford to borrow money to buy gunnies or other things which they may want. And if he considers that Hessians are cheaper than they ought to be, he will raise the price by lowering the bank rate, so that people will be able to borrow money to buy Hessians, and the price will rise. Sir Andrew Murray's shareholders will doubtless approve of the latter operation, but he can hardly expect them to be unanimous about the pulling down of the price of heavy C's., by touching a button, simply because the Currency Authority has a gold bar less to sit on. The American farmers do not quite comprehend the system, but, according to *The Times*, they comprehend enough to have threatened to hit every head within sight.

May I draw Sir Basil's attention to Mr. Chang Tso-lin's method of stabilising the purchasing power of the monetary unit, as being more " simple and certain " than that of the Currency and Finance Commission ? I read the story only the other day. When the war lord arrived in a certain province and found the value of the monetary unit depreciating, he sent for five of the leading bankers

and " box-wallahs " from three of the chief towns, and shot them, just to " larn " the others not to be monkeying with the exchanges. If Sir Basil will try the Chinese method next time the Bombay men disturb his night's rest, he will find the rupee go up to two shillings or half-a-crown. He will then be able to abolish the salt tax, and to treat his impecunious little brothers in the provinces still more liberally, and give another boon to the Indian Tea Association.

No, " the primary task " of a bank is not to stabilise prices, neither is it " the goal " of a sound monetary policy to attempt the impossible task of regulating the price of gunnies, or rice, or wheat, or cotton, or coal, or anything else. Why did not the American Federal Reserve Board make the American farmers happy last year by keeping the price of cotton from falling as it did ? Because it could not. Why did not the Bank of England keep the price of coal from rising last year ? Because it could not. The old laws of supply and demand still hold good notwithstanding the teaching of the modern false prophets. The Bank which India must have, the only sound banking system, is one which will not waste its time defying the laws of nature, but one whose primary task will be to lend all the ten and one rupee notes which

may be required to increase the food supply of the people, so that every man, woman and child in India will have enough to eat. A high bank rate, and its sequel, a restriction in the supply of money, mean a restricted food supply and starvation. Every business man knows that an industry which has to pay anything from 25 to 100 per cent. for its finance, is the industry of a bankrupt people, and the people will remain bankrupt until they get a plentiful supply of cheap money to help them into solvency.

India has no use for an automaton sitting on a heap of 400 ounce gold bars in Bombay, throwing men out of employment by raising the bank rate when he finds the gold bars wearing thin. The Banker she wants, and which she must have, is a living man, whose agents will be live men, on the move all the time going round the 700,000 villages of India finding out how much money the people want to increase the food supply and keep the babies in life. Whatever money they need, and can be trusted to refund, they must have, no matter how many crores of one rupee notes it may mean. "What are the due limits of credit, is a question of the most momentous consequence," says Dunning Macleod, in *The Elements of Banking*. His answer is "Credit is never excessive, no matter

what its absolute quantity is, so long as it always returns into itself." I should apply a still sterner test, and insist not only on the money returning, but that while it is out it is used for increasing the food supply of the people. This is the banking system which made Scotland, and the system which will make India. It will both feed the people and draw more gold bars into India to keep the Currency Authority from falling off his golden throne. If Sir Basil can prove that it is unsound to improve the health of the people by presenting India with an additional Rs. 50,000 of rice or sugar in fifty years, in exchange for a thousand one rupee notes, or a hundred ten rupee notes, which cost next to nothing, and come back after gathering the harvest, let him do so. If he cannot do so, then let him replace the Currency Authority recommended by the Currency and Finance Commission with one who understands finance, and who will not waste his own and India's time in defying the laws of nature.

The loss which India suffers from unsound finance, and the want of finance, is appalling. I have already shown what she loses by investing the Gold Standard Reserve outside of India. But she will lose still more if the combined Gold Standard and Paper Currency Reserves are utilised, only to

the extent suggested by the Currency and Finance Commission. If the Reserve Bank is to finance only the five traders, and leave the 73 lean farmers outside the reach of cheap finance, it will be a great engine wasting 73 per cent. of its power; the Ship of State, meantime, drifting along no one quite knows where, at the rate of five knots an hour, when she ought to be steaming full speed ahead to her desired haven—Arampur, the abode of peace.

With the People's Bank linked on to it to finance the people, in the same way as The Imperial Bank is linked on to it to finance the trader, the Reserve Bank will be India's 320 million man power engine driving her onward to her goal; and India in motion will move the world. May she no longer waste her idle money and her manhood.

## The Graduate, the Ráyat, and the Book Entry.

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The graduate and the ráyat are alike in this respect,—both are poor, but they need not remain poor much longer. All material wealth is created by the labour of men's brains and hands, and as India's brain power is of the best, and her hand power only waits to be organized, the "staggering" poverty of India should soon be a thing of the past. The one thing needful is money, and as modern money is merely a matter of book keeping, and as book entries cost little or nothing to manufacture, there is no excuse whatever for India remaining longer in the Slough of Despond.

My authority for saying that modern finance is simply a matter of book keeping is one of the highest in the Empire, viz. : the Cunliffe Committee appointed by the British Government towards the close of the war to advise what should be done after the war in order to bring about the restoration of normal conditions in matters of currency and exchange. The following is the Committee's explanation as to how credit is created, and of the manner in which the Bank of England and all the



other great British Banks manufacture money :—

“ The credits created by the Bank of England in favour of its depositors under the arrangements by which the Bank undertook to discount approved bills of exchange and other measures taken about the same time for the protection of credit caused a large increase in the deposits of the Bank. Further, the need of the Government for funds wherewith to finance the war in excess of the amounts raised by taxation and by loans from the public has made necessary the creation of credits in their favour with the Bank of England. Thus, the total amount of the Bank's deposits increased from, approximately, £56,000,000 in July, 1914, to £273,000,000 on the 28th July, 1915, and, though a considerable reduction has since been effected, they now (15th August, 1918) stand as high as £171,870,000. The balances created by these operations passing by means of payments to contractors and others to the joint stock banks have formed the foundation of a great growth of their deposits, which have also been swelled by the creation of credits in connection with the subscriptions to the various War Loans. Under the operation of these causes the total deposits of the banks of the United Kingdom (other than the Bank of

England) increased from £1,070,681,000 on the 31st December, 1913, to £1,742,902,000 on the 31st December, 1917.

“ This process has had results of such far-reaching importance that it may be useful to set out in detail the manner in which it operates. Suppose, for example, that in a given week the Government require £10,000,000 over and above the receipts from taxation and loans from the public. They apply for an advance from the Bank of England, which by a book entry places the amount required to the credit of Public Deposits in the same way as any other banker credits the account of a customer when he grants him temporary accommodation. The amount is then paid out to contractors and other Government creditors, and passes, when the cheques are cleared, to the credit of their bankers in the books of the Bank of England—in other words is transferred from Public to “ Other ” Deposits, the effect of the whole transaction thus being to increase by £10,000,000 the purchasing power in the hands of the public in the form of deposits in the Joint Stock Banks, and the bankers’ cash at the Bank of England by the same amount. The bankers’ liabilities to depositors having thus increased by £10,000,000 and their cash reserves by an equal

amount, their proportion of cash to liabilities (which was normally before the war something under 20 per cent.) is improved, with the result that they are in a position to make advances to their customers to an amount equal to four or five times the sum added to their cash reserves, or, in the absence of demand for such accommodation, to increase their investments by the difference between the cash received and the proportion they require to hold against the increase of their deposit liabilities. Since the outbreak of war it is the second procedure which has in the main been followed, the surplus cash having been used to subscribe for Treasury Bills and other Government securities. The money so subscribed has again been spent by the Government and returned in the manner above described to the bankers' cash balances, the process being repeated again and again until each £10,000,000 originally advanced by the Bank of England has created new deposits representing new purchasing power to several times that amount. Before the war these processes, if continued, compelled the Bank of England, as explained in paragraph 6, to raise its rate of discount, but, as indicated below, the unlimited issue of Currency Notes has

now removed this check upon the continued expansion of credit."

The Cunliffe Report is one of the most illuminating financial documents ever published, and as an exposition of the modern banking system when freed from the sterilizing restrictions of the Bank Act of 1844, it could hardly be bettered. The Bank of England, who are the Government book keepers, make a book entry debiting the nation and crediting the contractors with £10,000,000 for goods supplied to the nation. The cheque which the contractor receives is paid by him into his bank account, and from there goes back into the Bank of England as a deposit where it is treated as so much gold ; and on the strength of this gilt paper, or book entry, the bank which sent in the cheque manufactures and lends £50,000,000 more of book entries at five or six per cent. All these loans on the assets side of the bank's balance sheet become deposits on the liabilities side, these deposits being manufactured by the banks themselves. The manufacture of money is the best paying business under the sun. Jute cannot compare with it. Just think of it,— a profit of five or six per cent. on thousands of crores of rupees which cost, practically, only the bank clerks' wages to manufacture. In my younger days in Calcutta I made lakhs and lakhs of book

entries, but I got only Rs.300 a month for making them, and my Bengali colleagues very much less. The banks get millions sterling for the same job. The modern cheque is simply a book entry. The cheque for Rs.1,000 which I sign is only a letter to my banker telling him to debit me and credit some one else with that sum. Bank notes are simply book entries. The ten rupee or one rupee note is only a book entry written, not on a sheet of paper in a bank ledger, but on a loose sheet in my pocket, certifying that I hold at the debit of the nation and at my credit, ten rupees' worth or one rupee's worth of rice, or cloth, or gold, or silver, or whatever I may want.

The British banks make their huge profits and pay their sixteen and eighteen per cent. dividends, very largely, by lending money which they do not possess. Like the lawyers, they fatten on other people's misfortunes. When other people require money, the banks manufacture it for them out of the borrowers' own trustworthiness or credit, and charge five or six per cent. for doing so. And when a war or a great commercial crisis comes along, and the banks are asked to pay their deposits, Government comes to their help as the British Government did in 1914 and as the Japanese Government has done in 1927, and authorizes them to pay their debts

with scraps of paper instead of the gold which they profess to be able to pay but cannot ; and so the situation is saved and trade resumes its normal course as if nothing had happened.

India has, for years, been endeavouring to increase her manufacturing industries. She has now cotton, jute, and iron industries in full swing, but the safest and most prosperous industry of all, the manufacture of book entries or good paper money has, somehow or other, been overlooked. Now is the time to make a beginning. All that is necessary is that there should be a plentiful supply of reliable men in need of money. The money is in the moneyless men who borrow, and not in the bank which lends. India has 250 million of these poor men who can be organized co-operatively and made reliable. They require first of all 600 crores to free them from the mahajan, and they will be delighted to pay five or six per cent. or more for their freedom. If Government takes up this business and manufactures the 600 crores, these poor men will pay 30 crores every year into the Government Treasury. If Government manufactures another 600 crores to give the 250,000,000 a fresh start in life they will pay another 30 crores into the Treasury. And India will want a great deal more than 1,200 crores before the ship of State is really afloat and under

full steam ; and the more money Government manufactures and lends to needy reliable men who will return it, the more will the needy ones and the Government prosper. And when Government, or rather I should say the nation, takes all the risk in times of stress, it would be both foolish and unfair not to take the profit in times of peace, and it is here that the graduate and the ráyat can come in to reap a rich harvest of banking profit for their country, and lift themselves out of poverty at the same time.

“ The profit of the earth is for all ; the King himself is served by the field.” Whether we be Viceroys or Finance Ministers, Councillors of State, or Members of the Legislative Assembly, merchants, barristers, babus, officials or non-officials, cotton weavers or jute spinners, Brahmin, Moslem, or Christian, touchable or untouchable, we all live off the land. Therefore, the primary task of India’s new banking system must be the financing of the great industry of Agriculture by which all live.

Mr. Gandhi’s economic ideas are, in the main, perfectly sound and quite attainable. In putting them forward he is only following out the teaching of his English guru, that great economist John Ruskin. When Ruskin said “ There is no wealth but life ” he uttered the greatest of economic

truths ; for gold has no value if it cannot be exchanged for food, and food is of value only when it is turned into flesh and blood, or Life. If the streets of Bombay were paved with 400 ounce gold bars, and her bazaars were empty of wheat and flour and rice and sugar, it would be a city of the dead. India wants a banking system which will give her more food and more abundant life, and that banking system can only be a co-operative one, for it is a physical impossibility for any other to reach forth a helping hand to India's many millions of small farmers.

If I may be allowed to sound a personal note I may claim to have some say in this matter. I was a member of the Committee of Lord Curzon's Council which framed the first Co-operative Credit Societies Act, and it has been a source of great pleasure to me that I had a hand in the framing of it, and that I was the first to risk money in the movement after the Act was passed. I lent Government Rs.20,000 to give the new banking system a start. The money was lent out in the various provinces, and it all came back, proving that the r yat could be trusted, and, when organized, would become a great source of profit to the new banking system and the State, which is the nation. For when India is organized co-



operatively no further taxation of the country will be necessary ; the profit from the banking system will provide all that is wanted by Government in the way of additional taxation, and the people themselves will have enough money to do the rest. Taxes breed revolutions, and the tax-gatherer is the servant of Moscow.

What I have to suggest, therefore, is that, Government arrange at once for a great forward movement in the development of the Co-operative banking system, by harnessing on to it the brain power of the graduate for the organizing of the hand power of the ráyat. The combination of both will give the world a new form of Constitution, a Co-operative Commonwealth which will preserve the freedom of the individual—a Commonwealth in which Man and not money will be the Master, and a Constitution stronger than any party system can make it, and greater than Mussolini's Corporative Commonwealth, for under it Labour and Capital will become One, and India a united Nation.

## The Rayat and Long-Term Credit.

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The following article which is taken bodily from Sir Hilton Young's paper the *Financial News* of 25th April, 1927, shows that the Federal Reserve Banking System of America, on which it is proposed to base India's new banking system, is in a fluid state and likely to remain so for some years to come, and that it already requires modifying in the way of providing the long-term credit which is now demanded by the American people.

### " FEDERAL RESERVE SYSTEM.

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#### " Important Phases of American Banking.

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#### " Long-Term Investments.

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#### "(FROM A BANKER.)

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" The thirteenth annual report of the Federal Reserve Board covering operations for the year 1926 is very small, compared with many of its predecessors, but it deals in a very interesting way with many important phases of American banking, prominent among which is the question of member bank credit. As at the end of the

year, there were 9,260 member banks in the Federal Reserve system with total resources of \$42,029 millions, the importance of their credit operations requires little emphasis. It is of interest to note that the total deposits of the member banks increased from \$32,361 millions at the end of 1924 to \$34,228 millions at the end of 1925, and to \$34,508 millions at the end of 1926, while their total loans and investments rose from \$29,026 millions to \$31,199 millions and \$31,896 millions respectively.

“ Although the credit granted by the member banks continued to increase during 1926, the expansion was at a slower rate than in any of the four preceding years. Investment holdings showed comparatively little change, and the expansion was almost entirely in loans other than security loans. It would seem, however, that the expansion in credit was not dictated solely by the current needs of trade and industry. There was great activity during 1926 in real estate transactions and in building construction, and the total amount of the loans by all member banks outstanding at the end of June, 1926, secured by real estate amounted to \$2,650 millions, or 12 per cent. of their total loans. Moreover, continuous decline

in the price level during 1926 tended to cause a decline in the credit requirements of trade and industry, and this tendency was emphasised by the disposition to carry smaller stocks, in view of the downward trend of prices.

“ The conclusion is reached, therefore, that the growth in member bank credit in 1926, though it was not in holdings of securities or in loans on securities, was not entirely in response to current requirements of trade and industry, but included an element of growth of credit for longer term purposes, and particularly for the financing of building operations and real estate transactions.

#### “ LOAN POLICY.

“ Reviewing the position over a longer period, the report calls attention to the marked tendency in recent years for the National banks, which constitute by far the larger part of the system's membership, to use an increasing proportion of their resources in long-term investments, this tendency having been particularly marked in the five year period commencing in the Spring of 1922. There has also been an increase in the proportion of funds invested in loans against stocks or bonds. Formerly loans of this kind were regarded in the United States as being

almost entirely for carrying or trading in Stock Exchange securities, as loans for commercial, industrial or agricultural purposes were raised against security of a different kind.

“This distinction, however, is gradually becoming less marked, because of the growing practice among commercial and industrial borrowers of obtaining accommodation at their banks for current requirements by means of loans secured against stocks and bonds. There has also been a considerable change in the character of the deposits. Since 1922 net demand deposits of reporting member banks have increased by 27 per cent., while their time deposits have increased by 93 per cent., and the proportion of time deposits to the total of time and net demand deposits combined has increased from 23 to 31 per cent. This more rapid growth of time deposits at member banks since the organisation of the Federal Reserve system has accompanied the general growth in the country's savings of all kinds, but to some extent it represents merely a transfer from demand to time deposits caused by the lower percentage of reserves required against time deposits, and the greater efforts made by member banks to encourage savings accounts. To a

considerable extent, however, it is due to the fact that the member banks are now securing a larger proportion than formerly of the time deposit business of the country.

“The report states that looking at the developments in the condition of member banks as a whole in recent years, the outstanding changes have been in the direction of a larger proportion of long-term investments, and of loans on securities and of a corresponding increase in the proportion of time deposits, as compared with deposits payable on demand.

“ REDISCOUNT.

“From the point of view of the Federal Reserve system, an important outcome of these developments in the character of the business of member banks has been a decrease in the proportion of the banks' assets that are eligible for rediscount with the Federal Reserve banks. The decline in the proportion of eligible paper has been continuous and considerable and has been due chiefly to the relatively more rapid growth of holdings of investments and of loans on securities. An additional factor in this decline has been the decrease in the volume of loans secured by United States obligations, which are eligible for rediscount regardless of the purpose for which

the loan was made. With the reduction of the public debt and the absorption of United States securities by permanent investors, the volume of borrowing on such securities has declined, and this has proportionally reduced the amount of paper eligible for rediscount.

“ Although the paper eligible for rediscount at the Federal Reserve banks appears in the aggregate to be ample to meet any demands that are likely to arise, the tendency towards a decrease in the proportion of such paper is engaging the serious attention of the board, especially as it is accompanied by a decrease in the reserve balances maintained by the member banks. This decrease arises from the fact that time deposits have been increasing much more rapidly than demand deposits. Since legal reserve requirements against time deposits are 3 per cent., while against net demand deposits they range from 7 to 13 per cent., the increase in the proportion of time deposits has had the effect of decreasing the average amount of reserves carried by member banks against their deposit liabilities. Thus, while in March, 1922, the ratio of reserve balances at the reserve banks to total net demand plus time deposits was 8.1 per cent., at the end of 1926 this ratio

had declined to 7.3 per cent. This decline in ratio means that member banks were able to comply with legal reserve requirements with a considerably smaller amount of reserves than would have been necessary had the proportion of time to demand deposits remained unchanged, or, to put it in another way, to add a large amount to their loans and investments without a corresponding increase in their reserves. As a matter of fact, reserve balances of member banks have not increased since the end of 1924, although there has been since that time a growth of about \$2,900,000,000 in the total amount of credit extended by these banks.

“ CHANGING CONDITIONS.

“ In connection with this position, the report states that the changing character of the business of member banks in recent years has thus been characterised by an increased use of their resources in long-time investments and in loans not arising out of the current requirements of trade and industry, and by an increase in the proportion of their liabilities in the form of time deposits. This is a development which, though it may in some cases result in strengthening the position of individual member banks, represents a departure from the original conception of the



Federal Reserve banking system as a co-operative undertaking among commercial banks engaged primarily in the financing of the current operations of productive industry and trade.

“As long time trends, these changes in the character of the business of the member banks are significant both because they tend to decrease the proportion of short-term, self-liquidating paper in the assets of member banks and because they result in relatively smaller reserve holdings against the deposits of these banks.

“These facts emphasise that the Federal Reserve system is still, to a large extent, in its infancy, and that the many problems likely to arise will probably keep the character of American banking in a fluid state for several years to come.”

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India need, therefore, be in no hurry adopting the Report of the Royal Commission on Indian Currency and Finance, based as that report is on the American Federal Reserve System which was framed to supply short-term credit, not the long-term credit which America now demands, and which India requires still more urgently.

I have already shown what the American farmer thinks of the Federal Reserve System, and in this

connection the following cutting from the *Statist* of 30th April, 1927, is interesting and instructive.

“The President, however, is even less concerned by the merely political aspects of the question, according to his unofficial spokesman; he has always desired to aid the farmer, and he believes that unless the farmer gets relief shortly, business conditions generally may suffer, and that American prosperity cannot continue indefinitely unless the farmers are taken care of properly.”

How much longer have India's farmers to wait for relief, and when will *they* be taken care of properly?

It is a far cry from America to New Zealand, but we find the same cry for long-term credit from the New Zealand farmer; and the following cutting from the *Times International Banking Supplement* of 18th June, 1927, shows how the New Zealand Government is responding to the cry.

“Intermediate credit, the Commission considered, was desirable to aid in orderly marketing by giving farmers such credit that they would not be compelled to sell their produce immediately, but would be able to hold it and allow a glutted market to recover. The Commission proposed that this intermediate credit should be

given by a Farmers' Loan Board (the State Advances Board with farmer representatives added) through approved registered co-operative societies, and co-operative rural intermediate credit Associations, which would furnish security. These loans would be made upon stock and produce, and the farm loans Board would have authority to demand the realisation of the securities at any time—thus guarding against speculative holding. The organisation proposed would provide for close supervision of securities and for co-operation with the commercial banks, whose existing machinery would be used to discount bills drawn by the local associations and endorsed by the farm Loans Boards representatives. . . . In the meantime the Bank of New Zealand is undertaking an experiment which will be watched most closely by other financial institutions. Under a special Act passed last session, it has created a special long-term loan department, with a special capital bearing a fixed interest of  $7\frac{1}{2}$  per cent. for private shareholders and 6 per cent. where subscribed by the Government. This capital, supplemented by debentures not exceeding three times the amount of the paid-up special capital will be employed in long-term amortization loans upon which the interest will

be 6 per cent. ; not to be varied except by order in Council."

If further evidence is required to show that the Report of the Indian Currency and Finance Commission is grotesquely incomplete and already out of date (in so far as it fails to make provision for the long-term credit which is required so urgently by India's great industry) it is to be found in the fact that the short-term self liquidating commercial bill which the Report describes as " the commercial banks most legitimate asset " as a basis of credit, is now giving place in England as well as in America, to assets which come under the heading of Advances, these being loans for an indefinite period given, more or less, on personal security. The *Times International Banking Supplement* shows how the ratio of Advances is rising and the ratio of bills falling.

All the best evidence, therefore, points clearly to the fact that the modern economic world in all its branches, agriculture, manufactures and commerce, is demanding credit for whatever length of time may be required, and that the banking world is preparing to meet that demand, subject always to the proviso that the borrower returns the money. India has waited long for a banking system, and she does not now want one

which is passing out of date, nor a Reserve Bank Act which is already a back number. She must have a banking system which will finance every branch of the body politic, agriculture, manufactures, and commerce, and the greatest of these is Agriculture, for it is the base of all other industry. Instead of following America, let India give America a lead by building up the greatest bank in the world with its foundations well and truly laid in her 750,000 villages, and for this purpose let Government learn a lesson from New Zealand, and authorise the Imperial Bank of India to open a co-operative credit department for the financing of India's great industry and the co-operative manufacturing industries which are coming. This would also be following the lines laid down by the Irish Banking Commission, and confirmed by the recent Economic Conference of the League of Nations at which no less than 50 nations were represented. In a subsequent paper I shall give the finding of the League of Nations in full: here I quote from General Resolutions, clause 2.

“It is to the interest of Governments to encourage agriculture and the agricultural associations which have as their object the improvement of the situation of the agricultural population. In particular the creation and

development of mutual credit would be greatly facilitated by Government assistance."

Therefore, let the Government of India no longer hesitate to launch out on a great development of the Co-operative movement, for it is only along the Co-operative Way that India can reach her goal. There is no middle way. True political economy consists not in curtailing or cutting down a poor country's beggarly expenditure, but in increasing its beggarly income. Good ploughshares are more wanted than axes.

The Government Reserves should be placed freely at the disposal of the Imperial Bank or an All-India Bank, for the purpose of manufacturing the credit money required, or (to use the words of The League of Nations) "for the creation and development of mutual credit." And it will be the business of the Co-operative Department and its Registrars to push on with the organisation of the people, and to ensure that the money is lent out safely—to return with five per cent. profit for Government and one hundred per cent. of crops for the people.

## The Ráyat and The League of Nations.

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As the Reserve Bank Act will soon be under consideration by India's Legislators, I have thought it well to give here, in full, the finding of the International Economic Conference of the League of Nations, on the importance of Agriculture in the economic life of the world.

The Report of the Agricultural Committee, as adopted by the Conference, confirms what the supporters of the Indian co-operative movement have been pressing upon Government for the last twenty years, viz., that until her great industry is organised and financed co-operatively, India will remain poor.

In view of this finding of the League of Nations, the Report of India's Royal Banking Commission makes sorry reading in that it ignores the financing of the great industry by which India and the world lives ; for, as the Report of the League of Nations says, "*Agriculture is the occupation of the majority of workers throughout the world ; its various products represent in value the greater part of human labour, and the exchange of its products against industrial*

*products forms, indeed, the basis of world trade*” ; and yet the Indian Currency and Finance Commission overlooked it. It is to be hoped that the Council of State and The Legislative Assembly will not blunder so badly when the Reserve Bank Act comes before them.

The following is the Geneva Report as taken from the English Journal of the Ministry of Agriculture for July, 1927 :—

## “ INTERNATIONAL ECONOMIC CONFERENCE.

### “ 6. AGRICULTURE.

“ I. INTRODUCTION.—Agriculture is the occupation of the majority of workers throughout the world ; its various products represent in value the greater part of human labour, and the exchange of its products against industrial products forms, indeed, the basis of world trade.

“ The agricultural population remains for humanity a reservoir of energy capable of preserving the nations from the rapid human wastage which may result from any excessive growth of industry.

“ The quantity of foodstuffs and raw materials produced by agriculture is one of the factors which determine the maximum limit of industrial development.



“ The interdependence existing between nations is no less close between the main classes of occupations—agriculture, industry, and commerce—and it would be vain to hope that one class could enjoy lasting prosperity independently of the others.

“ Agriculture is at present hampered in the complete fulfilment of the economic role assigned to it by a general depression varying in degree but affecting a large number of countries on which the world depends for its supply of foodstuffs and raw materials.

“ The economic depression in agriculture is characterized by the disequilibrium which has arisen between the prices of agricultural products and those of manufactured products ; as a result, agriculturists in a great number of countries no longer receive a sufficient return for their labour and on their capital. This depression is aggravated in many countries by the difficulty of obtaining credit on normal terms and by the great increase in fiscal charges ; while it has led to a decrease in the purchasing power of agriculturists, consumers have not, in all cases, benefited by a fall in the price of foodstuffs.

“ The diminution in the purchasing power of the agricultural population has reacted upon industrial production, and is consequently one of the causes of

unemployment, which in its turn reduces the outlets for agricultural products.

“ Unless practical measures are taken to restore the price equilibrium, it is to be feared that sooner or later there will be a diminution in agricultural production detrimental to the welfare of mankind.

“ Technical means exist, however, for a considerable development of agricultural production. They must therefore be put into operation. Their general adoption would have the most beneficial consequences for the prosperity and economic peace of the world.

“ II. GENERAL RESOLUTIONS.—(1) The Conference regards as a vital economic question the increase of agricultural production, and, with this in view, the placing of agriculture on an equal footing with industry by enabling all those engaged in agriculture to obtain a satisfactory standard of living and a normal return for their labour and on their capital.

“ It is important that this necessity should be brought home to public opinion, which does not always realize the true situation of agriculture and too often regards it as an industry of secondary importance.

“ (2) The improvement of agriculture must in the first place be the work of the agricul-

turists themselves. The general adoption of technical improvements, the scientific organization of production and stock-breeding, of the campaign against the diseases and the enemies of plants and animals, of marketing, of the standardization of agricultural products in the interests both of the producers and consumers, of the search for outlets, and of credits and insurance, will permit agriculturists to reduce their costs of production in their own interests and to the benefit of consumers.

“ Owing to the considerable number of small and medium-sized agricultural undertakings—the tendency towards concentration displayed in industry being absent—the organization of agriculturists should be continued along the lines of association and co-operation which have already been tested in many countries; it may with advantage be supplemented by agreements between agricultural and consumers’ co-operative societies.

“ It is to the interest of Governments to encourage agriculture and the agricultural associations which have as their object the improvement of the situation of the agricultural population. In particular, the creation and development of mutual credit would be greatly facilitated by Government assistance.

“ The Conference draws the attention of the

Government to the fact that high rates of interest and heavy taxation hamper production.

“ (3) Other measures to be contemplated depend chiefly on legislative action. In particular, the Conference is of opinion that social laws ensuring the welfare and security of workers should benefit agriculturists no less than industrial workers and employees, it being understood that such laws must be adapted to the special requirements of agriculture and to the special living and working conditions of rural populations. It is also of the opinion that agricultural instruction at all stages and the technical training of agriculturists should receive the attention of the different Governments as well as of agricultural associations.

“ (4) It is desirable that all hindrances to the free circulation of and trade in agricultural products should be removed, in so far as their removal does not endanger the vital interests of the different countries and their workers.

“ In those States in which Customs protection is maintained, it should be reduced, both for industry and agriculture, to the lowest possible point indispensable to production ; care should be taken to assist in the maintenance of an equitable balance between industry and agriculture and not to stifle one to the advantage of the other.

“ The system of export prohibitions and export duties (with the exception of taxes levied for the benefit of the industry concerned) and frequent changes in Customs tariffs, which long experience has shown to be ineffectual and dangerous, should be definitely abandoned.

“ (5) The agriculturist should find his just remuneration not through speculation but in the regularity of prices, permitting him to reckon on a legitimate return equivalent to that accorded to other producers.

“ (6) Since, finally, the policy pursued in industrial or commercial questions reacts on the economic situation of agriculture, and *vice versa*, the Conference requests the League of Nations to ensure that in all its organizations already existing or to be formed which are or may be entrusted with economic questions a place be always reserved for agriculture proportionate to its importance as a social and economic factor.

“ III. SPECIAL RESOLUTIONS.—In addition to the general resolutions formulated above, the Conference draws the attention of the League of Nations to the following points :—

“ 1. *Agricultural Co-operation : Relations between Agricultural Co-operative Societies and Consumers' Co-operative Societies.*—(i) The agriculturists of the

different countries contribute to the improvement of their standard of living and to the general prosperity by utilizing to an increasing extent all forms of co-operation: co-operative supply societies, either for the technical or domestic requirements of members; co-operative selling organizations for the regular marketing of products; producers' co-operative societies for the intermediate processes between the production of the raw material and the sale of the finished product; co-operative credit societies to meet the need for capital (bringing equipment up to date, improving the cultivation of the soil, storage of products).

“ Co-operative institutions thus increase the purchasing power of agriculturists both as producers and as consumers. At the same time they further economic progress both by increasing productivity and improving quality and also by making it possible to utilize fully the products of the soil and their by-products. Lastly, they assist the organization of markets by methods which reduce to a minimum the costs of distribution.

“ (ii) Agricultural co-operative societies will contribute to a still greater rationalization of economic life in proportion as they develop their relations with the consumers' co-operative societies. Direct commercial relations between producers and con-

sumers, and between associations of producers and of consumers, eliminate superfluous intermediaries, and, when they are sufficiently widespread, result in the establishment of prices which are advantageous to both parties. In addition to material profit, there is a moral advantage; by direct commercial relations producers and consumers learn to know each other and to take account of the special characteristics and requirements of the other party. The producers' and consumers' co-operative societies learn to appreciate the value of direct relations in accordance with their common principles. The clear realization of the possibility of mutual collaboration and mutual confidence in business transactions are essential to a practical solution of the question of direct commercial relations between producers' agricultural co-operative societies and consumers' co-operative societies—a question which has for a long time past been settled in theory.

“ The efforts made to achieve practical results should be furthered on the part of agriculture by the production of articles of specific quality and uniform type; on the part of the consumers' co-operative societies by the determination to buy agricultural produce as far as possible from the agricultural producers' co-operative societies; on

the part of States and of public authorities by supporting the co-operative movement through the creation of chairs at universities or of other scientific institutions, the institution of public courses dealing with the co-operative movement, and by fiscal policy of abstention from discriminatory measures against co-operative societies.

“ Effective collaboration, if need be in the form of common undertakings, will be the easier of realization if the producers’ and consumers’ co-operative societies of the different countries are already nationally organized in common economic committees.

“ To ensure the normal development of co-operation in all the branches in which it exercises its activities, it is extremely important that the laws which govern co-operation should be unified where such is not yet the case, and should impose the fewest possible obstacles.

“ (iii) International agreements between co-operative agricultural organizations with regard to a number of products might be of value in placing markets on a sound basis, in regularizing production and in stabilizing prices at levels satisfactory from the point of view of the balance between production and consumption. Such international agreements, to attain their aims, require loyal collaboration with



the national and international co-operative consumers' organizations by the establishment of regular business channels and long-term contracts.

“(iv) These efforts of agricultural and consumers' co-operative organizations should be encouraged and furthered by the creation of a committee representing national and international co-operative organizations of agriculturists and of consumers—a committee which should be entrusted with the establishment of a programme of research and documentation, as well as with the task of elucidating the lessons taught by past experience, with a view to bringing about new achievements.

“2. *Agricultural Credit*.—The increase of agricultural production is intimately bound up with the organization of agricultural credit, which will place at the disposal of agriculturists the necessary capital on favourable terms.

“Certain countries have at their disposal sufficient capital for agriculture, but in many countries adequate provision for agricultural credit has not as yet been made, either because saving has been diminished by the general economic conditions or because the appropriate organizations have not yet been constituted.

“Such a position is seriously harmful to agriculture in the countries in question, since it prevents

agriculturists from increasing their harvests, from exploiting their land to the full extent, from securing lower costs of production and from providing for contingencies arising from the very nature of agricultural production by the use of suitable equipment or of a reserve working capital.

“The first condition for surmounting these difficulties is the organization of suitable credit institutions in those countries where they do not yet exist and their development where they are already in existence. The best form of institution appears to be the co-operative credit society operating by means of resources which the very fact of association enables it to procure and to increase with or without the assistance of the public authorities.

“It is, moreover, by the co-operation of national organizations that the necessary effective guarantees for appeals for credit, whether national or international, can be most easily procured.

“Having had laid before it by several of its members schemes with regard to the setting up of an international organization capable of increasing the resources available for agricultural credits where they are as yet insufficient ;

“But having heard observations on that question based chiefly on the elementary consideration that credit must be secured by effective guarantees ;

“ And being aware of the fact that the International Institute of Agriculture is collecting special information on the question of agricultural credits :

“ The Conference requests the League of Nations to give full consideration to the documentation of the International Institute of Agriculture with a view to examining the possibility of international collaboration in respect of agricultural credits in whatever form may be found from experience to be most suitable with a view to promoting the recovery of agriculture where agriculture is short of capital.

“ 3. *Campaign against the Diseases Affecting Plants and Animals.*—Diseases, which affect plants and animals diminish agricultural production, and should be scientifically combated, on the basis of an international plan and international agreements.

“ This international campaign has already been admitted in principle by 43 nations, which have set up an “ International Epizootic Office,” and the International Institute of Agriculture is proposing to convene a special conference to bring about united international action in connexion with phytopathology.

“ International agreements which establish sanitary supervision, if they provide the contracting countries with adequate guarantees, should, without infringing sovereign rights, remove from the

regulations any suspicion of disguised protection, and should add to the stability of trade relations, which is one of the conditions of successful production.

“ 4. *Agriculture in Colonies.*—The Conference recommends that an investigation be made into the best means of encouraging agriculture among the indigenous inhabitants in colonies, and especially in tropical and sub-tropical colonies, in order to augment the prosperity of the indigenous inhabitants of those countries and to increase the general wealth.

“ 5. *Forestry.*—The Conference recommends that a special study should be made of the resources and the exploitation of forests in order to assure the regular satisfaction of the needs of industry.

“ 6. *Documentation on Agricultural Questions.—Statistics.—Inquiry.*—(i) Great as is the value of the documentation which has served as the basis for the discussions on agriculture, it must be acknowledged that there is not yet a sufficient foundation to permit of a complete analysis of all the problems or to suggest a solution of them.

“ The fundamental importance of agriculture demands an exact knowledge of its economic situation. Such knowledge can only be gained satisfactorily through a methodical analysis of

farm accounts. Such researches would bring about a general improvement in agriculture. They would facilitate the mutual understanding between the nations, and the common interests of the agriculturists of all countries would thereby be interpreted with precision. Finally, a better understanding would be created between the producer and the consumer.

“ To achieve this purpose, it is desirable that in the different countries an exact system of farm accounting should be formulated. These accounts should be drawn up in every country as simply as possible, but by the method ensuring the greatest guarantee of accuracy, so as to obtain comparable results for the different kinds of agricultural enterprises in any country, classified by climate, nature of soil, size of holding, systems of cultivation, principal crops grown, etc., and so as to make it possible to study the influence exerted on the net return of agriculture by the factors of greatest importance in production and returns (wages, quantities of chemical fertilizers consumed, taxation and social charges, prices, indebtedness of agriculturists, etc.).

“ It is therefore recommended that a committee of experts be established charged with the study and preparation of the requisite measures.

“ (ii) The Conference considers it necessary that a better service of periodical agricultural statistics should be instituted, especially as regards live stock and animal products. The data collected by the International Institute of Agriculture show that, during the last 25 years, only 37 countries, representing less than half the total area and about 30 per cent. of the population of the world, have as yet proceeded to the compilation of an agricultural census.

“ A world agricultural census on the lines proposed by the International Institute of Agriculture would make it possible to give to the statistical data of the different countries a character of uniformity which up to the present they have lacked.

“ It is no less necessary to organize, nationally and internationally, the speedy transmission to agriculturists of information on harvests, stocks, consumption, and the movements of different commodities, these being important factors in the formation of prices. The monthly publication of indices of comparative prices of agricultural products and industrial products would prove of great value, as would indices of the principal elements of the costs of production of agricultural products.

“ (iii) The Conference requests that all Governments should be invited to initiate a general inquiry into the present situation and the possibilities of developing agriculture, the distribution of holdings and the systems of exploitation, into the relations between agricultural and industrial production, into the comparison between agricultural and industrial prices, into the costs of production and selling prices, into the condition of the workers and into the facilities required for their access to the land, etc.—in fact, into the economic, social, financial and technical conditions of agriculture, the study of which will permit further progress to be made.”

The Geneva Conference tells us that “ *The first condition for surmounting these difficulties is the organization of suitable credit institutions,*” and that “ *The best form of institution appears to be the co-operative credit society operating by means of resources which the very fact of association enables it to procure and to increase with or without the assistance of the public authorities.*”

AND

“ *In particular the creation and development of mutual credit would be greatly facilitated by Government assistance.*”

The finding of the World's Peace Court (at which no less than 50 nations were represented) is that,

the welfare of India depends first of all upon the organization and development of co-operative credit ; but, so far, only one-twelfth of India has been covered by the co-operative credit movement ; and the staff at work is not sufficient to ensure that the work is being done with that thoroughness which banking demands. For example, the co-operative staff of the Bengal Government numbers about 450 only, whereas 5,000 men at least will be required to do justice to Bengal ; and as the Registrar in his last Annual Report remarks : " The wisest policy is to strengthen the staff ahead of actual requirements so that they may be able to direct fresh development on sound lines." All India will, I daresay, require 30,000 of the best of her young men for the organization and direction of the co-operative movement, as recommended by the League of Nations, and these will create employment for thousands more. Will Government now give these young men a chance to rebuild their mother land, and make her worthy of her place among the nations ? They will do more than pay their way. If the 45 million people of Great Britain could find ten thousand crores of rupees for the destructive work of war, there is something seriously wrong with the finances of the 320 millions of India



if her Government cannot find a few crores for the constructive work of peace.

A high authority tells us that " A bank is not an institution for borrowing and lending money : it is a manufactory of credit." Bank money is manufactured not from gold but from debt. The rāyat has heaps and heaps of debt, out of which can be manufactured crores and crores of money ; but only when he has been organized co-operatively, as recommended by the League of Nations, can that money be issued with safety. Therefore, organize, organize, organize ; for in organization India will find mines of gold and silver, and food and **Life**.



## APPENDICES.



THE CO-OPERATIVE MOVEMENT AND  
REPRESENTATIVE GOVERNMENT.

*Address delivered by the HONOURABLE MR. LYON,  
Executive member of the Government of Bengal, to  
the Provincial Co-operative Conference held in  
Calcutta in March, 1913.*

GENTLEMEN,—There is no more pleasant portion of my duties as President of this Conference of the makers of the Co-operative movement in Bengal than the opportunity which is given to me to welcome you and to assure you of the deep interest and sympathy with which Bengal is watching the development of the economic revolution with which you are concerned. It is no small privilege to be permitted to address this welcome to the men who are personally and actively engaged in such work.

I feel sure that you all listened on Saturday last with great appreciation to the eloquent address delivered to you by H.E. Lord Carmichael. His was a message of hope which embodied the spirit which animates your whole work, while, at the same time, his references to special points connected with your achievements during the past year showed how thoroughly your success was understood.

## CONSOLIDATION.

There was one special matter which was dealt with by him and in the annual report of the Registrar, to which I wish to refer, and that is the question of the consolidation of our co-operative societies. I regret that there should still be some misunderstanding connected with that word. We mean by Consolidation that we are determined to insist upon the acceptance of sound principles of co-operation by all our societies, and upon their conforming to the general scheme which has been set out for the development of this movement before we recognise them. This does not mean hampering them by any red-tape uniformity, but is merely the exercise of reasonable foresight. We have long since set before ourselves the necessity of beginning from the bottom. We start at the lowest rung of the ladder, we begin with village societies composed of the men who want the loans which we exist at present to give out, and with the union of the credit of those men to take the place of the individual credit which cannot bear the burden which would be imposed upon it. When we have founded a sufficient number of these sound and steady societies we bring them together under a central bank which helps in the work of inspecting them, ensuring that they are kept on sound lines, and financing them

with capital drawn from wider resources than the village societies can themselves command. And when, as now, our central banks have multiplied so greatly that they themselves require further inspection and further capital, we bring them all together in one great provincial bank which will help to control the whole of our work throughout this great and wealthy province. And to the scheme thus conceived and carried through, Government is lending and will continue to lend all the aid in its power by independent and careful audit of accounts, and so much of general supervision and inspection as will add to the credit and stability of the movement as a whole.

But, gentlemen, it is obvious that such an edifice as this must be built upon sound foundations. Our desire for the wide expansion and the extended influence of this movement must inevitably be curbed by the necessity for thoroughness in organisation and for stability in each new village co-operative society. On the other hand, granted this thoroughness in organisation and this stability, there need be no check or limit on the expansion of our system of village banks. Our plea for consolidation, therefore, amounts to nothing more than a warning that the work that is to be done must be carried through on sound lines or left altogether alone.

And we have recently had timely support for this policy. We have seen a great crisis caused by the failure of unsound finance in other parts of India, and one of the most dangerous results of this crisis has been the spread of a general sense of insecurity and a disposition to look askance at all banking transactions. It is a tribute to the greatness of the principles of co-operation that co-operative credit societies have stood firm when so many other banks have tottered. It has been realised that the co-operative credit societies differ essentially from those banks which have brought ruin to so many poor investors, but had we not insisted upon the adoption of sound principles before we would consent to the formation of any new society, we should undoubtedly have suffered from the serious reaction against all banking that has been caused by the crisis to which we refer. As matters stand, however, we have weathered the storm ; we have shown that this panic in the banking world has nothing to do with us, and we are free to look ahead and work for the ultimate objects of our scheme without fear of any serious check.

### THE ULTIMATE OBJECTS.

And what, gentlemen, are the ultimate objects of our scheme ? I do not deny that the immediate



objects to be obtained by a sound credit system are so great in this country of poor cultivators that we may well be excused if we pause before we look beyond them, but such is the pace at which this movement has progressed, that the dreams of yesterday are rapidly becoming the accomplished facts of to-day. You will see from a speech delivered the other day by Mr. Hailey, the President of the U.P. Provincial Conference of Co-operative Credit Societies, how quickly these societies are taking up agricultural reform in all its branches as a fit object to which they may devote the capital that they have amassed for the benefit of their members. They are already finding how great is the strength which union gives and how much can be effected by co-operation. Again, at the Simla Conference of the Registrars of Co-operative Credit Societies a paper was read by Mr. Crosthwaite, the Registrar in the Central Provinces, in which a full account was given, with most illuminating comments, of the work done in those provinces, and the influence its co-operative credit societies were beginning to exert. And the most valuable of his comments were those which dealt with the educative and moral effect of the spread of those societies. And the same line was taken by a capable article on Trade and Finance

which appeared only yesterday in the *Statesman* newspaper, in which the writer speaks of the co-operative movement as affording the only practical road to education in banking methods and economics generally, and adds that he cannot conceive a better initiation into the science of practical as well as higher finance for the educated middle classes of India than service on the administration of a co-operative share bank or credit society.

These are great objects, but, gentlemen, some of us have dreams which go further than this and which may be as speedily fulfilled. I have had some experience of late of the spirit of patriotism which is moving so many of your countrymen at the present time. The fervour of that spirit has grievously misled some young men, but in others it has developed a notable capacity for service to their fellow countrymen. And it has created one of the most powerful motive forces, at present, affecting a large and influential section of the people of this province—the desire to work for the future well-being and uplifting of Bengal. As you were reminded by H.E. the Governor, this desire has been exemplified recently in the hard and unremitting labour which has been given by many men in connection with the recent floods in Burdwan and Midnapore. And this is only one example

of a widespread spirit that only seeks opportunities for vigorous and healthful exercise.

### POLITICAL PHILOSOPHY.

I should be the last to say any word of disparagement of far-reaching reforms such as those which have been recently introduced into our Councils with the object of bringing the higher officers of Government into touch with your leading men, but experience is fast demonstrating that, if we wish to erect a political edifice that will endure, we must begin, as we are beginning in the case of social and economic edifices, at the foundations rather than with the roof. A representative depends for his importance on the influence and the power of his constituency, a leader can be nothing more than a leader in name unless there is strength and vitality in the party which he leads, and it is from the bottom—from the towns and villages of the interior—that the strength of all expressions of public opinion must be derived. And, gentlemen, how can we best bring together the people in the constituencies, which are ultimately to send representatives to your local councils to work for the common weal? Surely it is by uniting them first in the manner indicated by your co-operative credit

societies, which are destined to form the best and the soundest basis for the constituencies of the future. I look forward to the time when the co-operative credit society of each village, bringing the people together for all matters connected with the weal of the village, will be linked up with the system of village and circle government and will be utilised as the only efficient electoral unit. Each such unit will vote for the representative who will look after the interests of the village in a large council composed of an aggregate of unions, and he will in his turn help to elect the members of still higher councils. In every stage of such development you will find the Government your firm ally, as it is in this way alone, I believe, that we shall obtain truly popular constituencies, able by the influence they exercise on public affairs to contribute valuable assistance towards the good government of Bengal. It is one of the commonplaces of political philosophy that there can be no government so effective as that which is based upon the enlightened co-operation of the governed, and all who join in the greatest work upon which you are engaged are making a valuable contribution to the solution of the many difficult and even dangerous political problems which confront the Government and the peoples of India to-day.

**EXTRACT FROM DUNNING MACLEOD'S  
ELEMENTS OF BANKING.**

“ We have now to describe a species of credit invented in Scotland, to which the marvellous progress and prosperity of that country is mainly due.

“ The Bank of Scotland began to issue £1 notes about the beginning of the last century. In 1727 another bank was founded named the Royal Bank. In the very contracted sphere of Scottish commerce at that time, there were not sufficient commercial bills to exhaust the credit of the banks. They had, as it were, a superfluity of credit on hand, and the Royal Bank devised a new means of getting it into circulation.

“ It agreed, on receiving sufficient guarantees, to open or create credits in favour of respectable and trustworthy persons.

“ A cash credit is therefore simply a drawing account, created in favour of a customer, upon which he may operate in precisely the same manner as on a common drawing account. The only difference being that, instead of receiving interest upon the daily balance to his credit, as is very commonly the custom in Scotland, he pays interest

on the daily balance at his debit. It is thus an inverse drawing account.

“ All these advances are made exclusively in the Bank's own notes, and they are not made on the basis of any previous transaction.

“ Cash credits are applicable to a totally different class of transactions from those which give rise to bills of exchange, and we will now explain their nature more fully.

“ Almost every young man commencing business in Scotland does it by means of a cash credit. A young solicitor, for instance, in England must have a very considerable amount of ready money to begin business with any ease to himself, as he is expected to make disbursements before he can get in payments from his clients. But in Scotland this is done by means of a cash credit which is guaranteed by his friends.

“ These credits are granted to all classes of society, to the poor as freely as to the rich. Everything depends upon character. Young men in the humblest walks of life inspire their friends with confidence in their steadiness and judgment, and they become sureties for them on a cash credit. This is exactly the same thing as money to them, and they then have the means placed

within their reach of rising to any extent to which their abilities and industry permit them.

“ It was in this manner that the prodigious progress in agriculture was made in Scotland. There were immense quantities of reclaimable land, and abundance of unemployed people, but no capital or money to set their industry in motion. Seeing this state of matters the banks opened branches in numerous parts of the country, and sent down boxes of £1 notes and granted cash credits to the farmers. These notes were universally received as readily as coin. The farmers made their purchases and paid wages with them, and immense tracts of barren land were changed into fertile cornfields. Now these £1 notes were not a substitute for any specie ; they did not supersede or displace any previously existing money ; they were a pure *addition* to the existing money ; they were, in fact, equivalent to the creation of so much gold.

“ Commerce and agriculture therefore received their prodigious stimulus from these cash credits. But they were of equal use in a public point of view. Almost all the great public works of every description were created by means of these cash credits. One witness stated that the Forth and Clyde Canal was executed by means of a cash credit of £40,000 granted by the Royal Bank.

And in exactly a similar way, whenever any other great public works are to be done, such as roads, bridges, canals, railways, docks, etc., the invariable course is to obtain a large cash credit at one of the banks.

“ All these marvellous results, which have raised Scotland from the lowest state of barbarism up to her present proud position in the space of 150 years, are the children of pure CREDIT. It is no exaggeration whatever, but a melancholy truth, that at the period of the Revolution, 1688, and the establishment of the Bank of Scotland, that country, partly owing to such a series of disasters as cannot be paralleled in the history of any other independent nation, and partly owing to its position in the very outskirts of the civilized world, and far removed from the humanizing influence of commerce, divided, in fact, into two nations, aliens in blood and language, was the most utterly barbarous, savage and lawless kingdom in Europe. And it is equally undeniable that the two great causes of her rapid rise in civilization and wealth have been her systems of national education and banking. Her system of banking has been of infinitely greater service to her than mines of gold and silver. Mines of the precious metals would probably have demoralized her people. But her banking system



has tended immensely to call forth every manly virtue. In the character of her own people, in their steadiness, their integrity, their honour, Scotland has found wealth infinitely more beneficial to her than the mines of Mexico and Peru.

“ Now, we observe that these cash credits which have produced such marvellous results are not based upon any previous operations, nor upon the transfer of commodities already in existence. They are created for the express purpose of creating or forming future products, which would either have no existence at all but for them, or, at all events, they would have been deferred for a very long period, until solid money could have been obtained to produce them. Thus we have an enormous mass of exchangeable property (the £1 notes) created by the mere will of the bank and its customers, which produces all the effects of solid gold and silver ; and when it has done its work, it vanishes again into nothing, at the will of the same persons who called it into existence.

“ Hence we see that the mere will of man has created vast masses of wealth out of nothing, and then DECREASED them into nothing, which, having served their purpose, after a time were

‘ Melted into air, into thin air.’

“ But their solid results have by no means faded like the baseless fabric of a vision, leaving not a rack behind. On the contrary, their solid results have been her far-famed agriculture ; the manufactures of Glasgow and Paisley ; the unrivalled steamships of the Clyde ; great public works of all sorts—canals, railroads, roads, bridges ; and poor young men converted into princely merchants.”

EXTRACT FROM WALTER BAGEHOT'S  
*LOMBARD STREET.*

“The real introductory function which deposit banks at first perform is much more popular, and it is only when they can perform this more popular kind of business that deposit banking ever spreads quickly and extensively. This function is the supply of the paper circulation to the country, and it will be observed that I am not about to overstep my limits and discuss this as a question of currency. In what form the best paper currency can be supplied to the country is a question of economical theory, with which I do not meddle here. I am only narrating unquestionable history ; not dealing with an argument where every step is disputed. And part of this certain history is that the best way to diffuse banking in a community is to allow the banker to issue bank-notes of small amount that can supersede the metal currency. This amounts to a subsidy to each banker to enable him to keep open a bank until depositors choose to come to it. The country where deposit banking is most diffused is Scotland, and there the original profits were entirely derived from the circulation. The note issue is now a most trifling part of the liabilities of the Scotch banks, but it was once

their mainstay and source of profit. A curious book, lately published, has enabled us to follow the course of this in detail. The Bank of Dundee, now amalgamated with the Royal Bank of Scotland, was founded in 1763, and had become before its amalgamation, eight or nine years since, a bank of considerable deposits. But for twenty-five years from its foundation it had no deposits at all. It subsisted mostly on its note issue, and a little on its remittance business. Only in 1792, after nearly thirty years, it began to gain deposits, but from that time they augmented very rapidly. The banking history of England has been the same, though we have no country bank accounts in detail which go back so far. But probably up to 1830 in England, or thereabouts, the main profit of banks was derived from the circulation, and for many years after that the deposits were treated as very minor matters.

“The reason why the use of bank paper commonly precedes the habit of making deposits in banks is very plain. It is a far easier habit to establish. In the issue of notes the banker, the person to be most benefited, can do something. He can pay away his own ‘promises’ in loans, in wages, or in payments of debts. But in the getting of deposits he is passive. His issues depend on

himself ; his deposits on the favour of others. And to the public the change is far easier, too. To collect a great mass of deposits with the same banker, a great number of persons must agree to do something ; but to establish a note circulation, a large number of persons need only do nothing. They receive the banker's notes in the common course of their business, and they have only *not* to take those notes to the banker for payment. If the public refrain from taking trouble, a paper circulation is immediately in existence. A paper circulation is begun by the banker, and requires no effort on the part of the public ; on the contrary, it needs an effort of the public to be rid of notes once issued. But deposit banking cannot be begun by the banker, and requires a spontaneous and consistent effort in the community, and therefore paper issue is the natural prelude to deposit banking.

“ The way in which the issue of notes by a banker prepares the way for the deposit of money with him is very plain. When a private person begins to possess a great heap of bank-notes, it will soon strike him that he is trusting the banker very much, and that in return he is getting nothing. He runs the risk of loss and robbery just as if he were hoarding coin. He would run no more risk by the

failure of the bank if he made a deposit there, and he would be free from the risk of keeping the cash. No doubt it takes time before even this simple reasoning is understood by uneducated minds. So strong is the wish of most people to see their money that they for some time continue to hoard bank-notes ; for a long period a few do so. But in the end common sense conquers. The circulation of bank-notes decreases, and the deposit of money with the banker increases. The credit of the banker having been efficiently advertised by the note, and accepted by the public, he lives on the credit so gained years after the note issue itself has ceased to be very important to him.

“ The efficiency of this introduction is proportional to the diffusion of the right of note issue. A single monopolist issuer, like the Bank of France, works its way with difficulty through a country, and advertises banking very slowly. The reason is that a central bank, which is governed in the capital, and descends on a country district, has much fewer modes of lending money safely than a bank of which the partners belong to that district, and know the men and things in it. A note issue is mainly begun by loans : there are then no deposits to be paid. But the mass of loans in a rural district are of small amount ; the bills to be discounted are

trifling ; the persons borrowing are of small means and only local repute ; the value of any property they wish to pledge depends on local circumstances. A banker who lives in the district, who has always lived there, whose whole mind is a history of the district and its changes, is easily able to lend money safely there. But a manager deputed by a single central establishment does so with difficulty. The worst people will come to him and ask for loans. His ignorance is a mark for all the shrewd and crafty people thereabouts. He will have endless difficulties in establishing the circulation of the distant bank, because he has not the local knowledge which alone can teach him how to issue that circulation safely.

“ A system of note issues is therefore the best introduction to a large system of deposit banking. As yet, historically, it is the only introduction ; no nation, as yet, has arrived at a great system of deposit banking without going first through the preliminary stage of note issues, and of such note issues the quickest and most efficient in this way is one made by individuals resident in the district and conversant with it.

“ This, therefore, is the reason why Lombard Street exists ; that is why England is a very great money market, and other European countries but

small ones in comparison. In England and Scotland a diffused system of note issues started banks all over the country. In these banks the savings of the country have been lodged, and by these they have been sent to London. No similar system arose elsewhere, and in consequence London is full of money, and all Continental cities are empty as compared with it. The monarchical form of Lombard Street is due also to the note issue."



*Extract from "The Times" of 22nd December, 1927.*

## WORLD SUPPLY OF GOLD.

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### WARNING BY DEPUTY-MASTER OF MINT.

The report for 1926 of the Deputy Master and Comptroller of the Royal Mint (Colonel R. A. Johnson) was issued yesterday. It contains a warning that "Unless we are prepared to face a prolonged fall in commodity prices, it is imperative to economize gold, both in regard to its use as a commodity and to its use as money."

## THE PAPER CURRENCY.

India's commercial community will welcome Sir William Meyer's pronouncement in favour of the one-rupee note and the development of the paper currency.

The accompanying extracts from standard authorities will show what the note issue has done for Great Britain, and how it led to that system of deposit banking which made London the financial centre of the world. If similar results can be achieved here, India will have every reason to be grateful.

State paper money has behind it the entire resources of the country, including all its gold and silver. It combines strength with elasticity, and is the only form of currency which can be supplied in volume equal to the growing requirements of 320 millions of people.

It will, however, be observed from the extracts given, that, for the proper development of the paper currency, it is essential that the country be covered with a network of local bank agencies through which the money will flow out wherever wanted; and that the money can most safely be distributed by an agency familiar with the district and its people.

It will also be observed that until the paper currency has been well diffused throughout the country, deposit banking, which gave London the financial supremacy of the world, is not likely to take root among the people ; and without a system of deposit banking India is not likely to keep abreast of the world.

On the strength of the hundreds of millions of gold which she has drawn from Europe in payment of war supplies, America intends to compete with the British Empire for the financial supremacy of the world.

In so far as gold means financial power, the most effective means of retaining the financial supremacy for the British Empire is so to develop its resources that gold will flow into the Empire in payment of increased exports.

The greatest reserve of gold-drawing power in the Empire lies in India's 320 millions of people, and in the increased exports which so great a population will create when cheap finance is brought to its doors.

If, therefore, the British Empire desires to retain the financial sceptre which she has hitherto wielded, it is essential that India be covered as quickly as possible with a network of bank agencies which will bring cheap finance to the doors of the people.

The only possible bank agencies familiar with the district and its people are the co-operative credit societies, and these must be pushed on as fast as possible with a view to—

1. The development of the note issue.
2. The development of deposit banking.
3. The retention for the British Empire of the financial supremacy of the world.

D. M. HAMILTON.

CALCUTTA, 15th March, 1917.

**BANKING UNREST IN THE UNITED STATES.\***

By H. PARKER WILLIS.

The month of October has been a period of active discussion with respect to general banking policies and particularly with regard to Federal Reserve methods throughout the United States. Outstanding events of importance have been the annual meeting of the National Bankers' Association, the effort of influential senators to bring about an important change in the attitude of the Government toward investment banking, as reflected in its practice in passing upon foreign loans, and a series of conferences among Federal Reserve authorities which have been designed to clarify the plans of our central banking organization and, so far as possible, to restore peace among the conflicting factions.

The meeting of the American Bankers' Association was pushed forward several weeks beyond the usual time of meeting, and was not finally completed until well toward the end of the month of October. The Association was thus enabled to get a general and broader view of the banking situation, covering

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practically a year past, and the official addresses were considerably more significant than usual in their grasp of the major problems which the banking world is confronting. Of these, two were of obviously commanding significance—the attitude to be taken by the bankers toward proposed modifications of the Federal Reserve Act ; and the action, if any, to be taken by them, or by State and national legislative bodies, with a view to correcting the tendency to failure which for several years past has caused a mortality of some 800 to 1,000 banks per annum.

As to the first point, it is highly significant that the Bankers' Association has definitely taken up a position adverse to any decided change in the Federal Reserve Act. President Traylor, in his annual address, took the view that such a change would be highly unwise at this time, and that (apparently) there was no warrant at any time for seeking any general or " fundamental " change in the provisions of the law. This is the reply of the guiding authorities of the Association to that large number of bankers who are inclined to feel that an early revision of the Act should be had, perhaps at the session of Congress which will open in December. There is, undoubtedly, great dissatisfaction with many of its provisions, and particularly with those

which relate to reserve holdings and to compulsory membership in the system. This dissatisfaction may or may not be well founded ; the fact is that it exists, and that, coupled with it, is criticism or complaint which follows along the lines already indicated in the pages of this journal in former months. Consultations between influential members of Congress and leading authorities in the banking field have, however, brought a fair degree of agreement that nothing should be attempted during this winter. This leaves the question open whether so-called " Radical " members of Congress will be able to force the discussion to the front. They unquestionably mean to do so ; but the fact that the Conservatives have succeeded in presenting a tolerably united front to critics is unquestionably an important factor in the case ; and one which will go far in preventing any enactment from taking place, no matter how urgently critics may endeavour to bring about the passage of some new piece of legislation.

As for the question of bank failures, the bankers have found it difficult to reach anything like as harmonious a position. It is a fact that the 3,000 or more failures which have occurred in the past three or four years have been predominantly among small banks ; indeed, only a very modest percentage

of them have had a capital and surplus in excess of \$250,000. From this has grown up in a good many minds a belief that the bank failure epidemic has been a disease of small banking. This is far from being a true estimate of the situation, but the fact that it is widely accepted among large bankers has resulted in establishing a kind of feud between the larger and smaller institutions. Thus, when the American Bankers' Association some months ago appointed a special committee to look into the failure situation and see what remedies it could recommend, it gave to that committee a very difficult task which involves the use of no little diplomacy. The upshot was the presentation of a report at the recent convention which expressly exonerated the small banks from the charges of bad management, or even of special weakness due to the smallness of their size, and which attributed failures to the fact that banks of relatively low capitalization are not able to withstand the readjustments which are necessary in times when the economic structure is shifting from a higher to a lower level of values. As remedies, three major changes were suggested: (1) moderate increase in the minimum capitalization required for the incorporation of a new bank; (2) insistence upon the use of greater care in the chartering of banks in



several of the States ; and (3) the establishment of so-called "clearing-house associations," or organizations of banks within a local territory whose purpose it should be to set on foot a process of mutual self-examination. This would be with a view to exercising a kind of general oversight or control, and also with a view to warning the several members of such a banking group of the possibility that bad paper or dangerous credit was creeping into their portfolios.

All these remedies are viewed by those most conversant with the situation as being harmless or mildly beneficial, but as having no considerable importance. The slight raising of the capitalization of banks which now may be organized with, say, \$15,000 to \$25,000 capital, so that they would be compelled to have double that amount before opening their doors, would be a belated and wholly inadequate reform which does not go to the root of the trouble. The use of greater care in supervising the granting of charters and in determining who should be allowed to go into the banking business is excellent, if it can be put into effect ; but the real trouble is that political conditions in many States are such that no such change can be expected in practice. If it could be, the whole problem, indeed, would very largely disappear.

As for the country clearing-houses or associations, it is not likely that the small banks will in any considerable number organize them, partly on account of the expense involved and partly on account of their disinclination to take on another kind of examination responsibility. Even if organized, the clearing-houses will be very difficult to conduct efficiently, and practical bankers from the Western States, where population is sparse, have expressed the opinion that the whole proposal is without serious foundation and will be likely to prove ineffectual. They are pretty well agreed that the only real, thorough, and effectual change in American country banking will come from the establishment of a branch banking system, under proper safeguards which will sufficiently protect local banks against any kind of unfair competition, but which will raise the standard of banking in the several communities, give to the rural population at least a certain number of institutions in which they can safely place their funds, and so compel local banks to live up to a better standard of business management and of banking conduct than heretofore. But any such change as this is likely to be long deferred, particularly as the recent epidemic of failures is now apparently declining in virulence, the number for the past few months being

quite evidently on the wane. It is something, no doubt, that the American Bankers' Association has at last taken cognizance of the failure epidemic, and has at least endeavoured to rectify the conditions which give rise to it, however inadequate the proposed remedies may be. It is none the less deeply deplored by many that the association should have been so slow in bringing itself to the point of considering this subject from a thorough standpoint.

While the bankers have thus been working on their own special problems in a semi-public way, they have also been debating in private the question what they can or should do about the bitter quarrel which has broken out in the Federal Reserve system regarding the use of the rediscount power. It is an open secret that when the Federal Advisory Council, composed of twelve leading bankers (one from each of the reserve districts) met in Washington during the latter part of September, it passed a very vigorous resolution of censure directed against the Reserve Board for its arbitrary action in endeavouring to force a  $3\frac{1}{2}$  per cent. rate upon the Reserve Bank of Chicago. There was a difference of opinion as to making this fact public. Nothing was finally done in that direction, but it was supposed that during October

the action probably would be published and a campaign would be begun for the definite settlement of the actual powers and status of the Reserve Board in its relation to the banks. No publicity has, however, been given to the resolution but, on the contrary, it has been tentatively agreed that, even if for tactical conditions the fact that such a resolution was passed should be technically acknowledged, it would be best to try to improve the situation through some method of internal treatment rather than through the application of public opinion or an appeal to Congress. The outcome, of course, is to leave the controversy open, with the understanding that the newly appointed governor of the Board, Mr. R. A. Young, shall use his utmost efforts to bring about a reconciliation and the adoption of some rules or regulations by the Board itself which would act as an assurance or semi-guaranty to reserve banks that they would not be domineered over in the future. This, again, is the outgrowth of the indisposition to afford any warrant for bringing subjects relating to our banking system to the attention of Congress. Whether it will be practicable to get a general agreement on the future policy of the Board or not is still uncertain.

A former governor, Mr. W. P. G. Harding (now governor of the Federal Reserve Bank of Boston),

has formulated a plan which he believes is in accordance with the terms of the Reserve Act and at the same time entirely capable of maintaining a reasonable working relationship, on peaceful terms, between the banks and the Board. Governor Harding's plan would provide first for a general division of authority between the Board and the several banks in accordance with the original Federal Reserve Act. The banks would name the rates of discount and would notify the Board of what they had done. The rates, however, would go into effect automatically and would remain in effect until such time as the Board might see fit to "review" them. If at any time that body decided that a rate needed review it would give notice to that effect to the bank which had made the rate, and thereafter hearings would be held to determine the desirability or legitimacy of the rate. If these hearings turned out in such a way as to indicate that the rate was undesirable or did not duly "accommodate commerce and business," the Board would refuse to permit its continuance, and thereupon the bank which had established it would be under the necessity of naming a new rate. Evidently this proposal of Governor Harding is based upon the admitted fact that during his administration the time required to bring about a

general change of rates in the system was about two months from the date that such change was first proposed. It may well be, therefore, that this plan would not result in postponing the final approval of rates much longer than, on the average, has been the case under existing legislation. Nevertheless, at times when prompt and effective action was called for, it would quite manifestly render decisive measures unattainable until after a delay which would effectually render action by the Board of very little avail.

Rather than assent to Governor Harding's plan or to any similar proposal which would involve postponement and "red tape," it is hoped by bankers that the new management of the Board may succeed in working out some *modus vivendi* which will be reasonably satisfactory to the various participants in the recent dispute, and will bring "peace without victory." The object thus aimed at may turn out to be as difficult of attainment as it has been on former occasions. At all events, no settlement of the matter has been arrived at, and while it may be possible to bridge over existing embarrassments in one way or another, it still remains true that legislation will probably be needed before the situation has been carried to a conclusion. As time goes on, the Federal Reserve

System is more and more showing the need of thoroughgoing repair. This is largely because of the makeshift expedients and temporary measures of different kinds that have been grafted upon it during the war and since. But it is also due to the fact that experience with the system is showing the need of really sincere and careful revision at points where the operation of the law has indicated the desirability of innovation. Elimination of the war amendments and improvement of weak points in the original structure thus constitute a continuing programme of reform which cannot be long evaded.

While the Federal Reserve System is thus passing through a period of storm and stress, the Federal Farm Loan System is equally uncomfortable, but for a very different reason. It will be remembered that during the past spring the Joint Stock Land Bank of Kansas City was placed in the hands of a receiver. Shortly thereafter some other land banks suffered the same fate, and then the Federal Farm Loan Board was reorganized by President Coolidge, who secured the retirement of three members and appointed three new ones in their places. Since that time there has been no very clear light on the situation, but now comes a preliminary report from the receiver of the Kansas City Bank which shows that the affairs of the institution are in a

chaotic condition, while it appears that there have been great irregularities in book-keeping and doubtful operations of many kinds in connection with the whole conduct of affairs. It seems clear that the result must be a considerable loss to bondholders. The significant aspect of the situation, however, is not found in the losses which may be expected to result from the liquidation of this bank, but is seen in the bearing that the whole episode has on the Government's relation to land-banking in general. It has always been regarded as an unfortunate thing that bonds of the joint-stock land banks should have been put before the public as "instrumentalities of the Government," and yet so it is. Notwithstanding that fact, the Government has been markedly lax and careless in its supervision of the joint-stock banks. How careful it has been in its control of the Federal farm land banks themselves it would be difficult to say, for no very responsible information has been made public. Congress, when it assembles, is expected to ask for a general inquiry into the land-bank situation, and this may involve an estimate of the responsibility of the Government in connection with the management of the land credit system as a whole.

Government activity in connection with investment and mortgage banking has not, however, been



limited of late to land mortgage financing. Once again the longstanding controversy regarding the authority of the Department of State to control foreign loans has come to the front. For a good while past, the Department has asserted the power to veto proposals for foreign loans in this market, and has insisted that all foreign loan proposals be submitted to it before any offering was made to the public. The result has been to discourage many loans that would otherwise have been placed, and at the same time to set the seal of official approval upon many that perhaps would not have succeeded without them. Needless to say, the Government has never assumed any responsibility in the matter, or given the public to understand that the loans which it approved were "good," or that those which it disapproved were "bad." On the contrary, it has disavowed any such responsibility, and has stated that its action was designed merely to indicate whether proposed loans were or were not acceptable from the general national standpoint, leaving the question of their investment value to be determined by the banker. Still, the fact remains that the Government has been regarded by a great many persons as having information of a very special kind which enabled it to judge, in ways not available to others, of the

value of proposed bond issues. This assumption of authority has been extremely distasteful to the financial community.

During the past month, two or more influential members of the Senate have taken occasion in public statements to disapprove of the activities of the Department of State and to urge that its foreign loan policy should be discontinued. The vigour with which the criticism has been presented has been such as to lead to an informal reply by the President, and from that the discussion has broadened until it has involved the Treasury Department and various other elements in the situation. It has been admitted that there is no legal basis for what the Department of State has been doing, but the argument has been put forward that in effect it was a necessary function designed to prevent the development of serious political complications ; while, had not the department performed this duty Congress, so it was said—would have been inclined to enact legislation which would have done more harm than good. The effect of the discussion has at least been to call attention much more sharply to the dangerous position in which this country has been placed as regards foreign loans, while at the same time the attention of the community has been much more fully concentrated upon the problem

of legislative legislation or control than has ever been possible in the past.

Proposals for measures designed to introduce some kind of oversight or control over foreign loans are now being heard among members of Congress, the difficulty in the case being apparently that no one has any feasible suggestion or practical measure to suggest in connection with the situation. That being the case, about all that seems to be reasonably expected from Congress is "investigation" of the usual kind, which ordinarily means little more than an effort to search out such scandals or cases of mismanagement as there may be, and to place them before the country. In this case, there is a little more that might be accomplished. The foreign loan development of the United States has proceeded very rapidly, and has at times seemed to be proceeding without any sufficient knowledge on the part of the public, or even of financiers in general, as to the exact facts surrounding the different offerings. Moreover, it is now quite clear that an unduly large proportion of the new bonds that have been sold here have been placed in the hands of banks which are holding them as part of their assets. Indeed, some country banks seem to be greatly overburdened with foreign bonds which they have purchased

because of the high yield to be derived from them at a time when domestic investments are not productive and when unsatisfactory conditions generally prevail with respect to the remunerative employment of bank funds. This state of things has given some concern to banking authorities, but the latter have done nothing more than occasionally to report their views. Congressional inquiry, so it is thought, might be directed in such a way as to show about how far high-rate foreign bonds are creeping into the assets of banks which are too small to have very much judgment about them. Such a result of investigation might be worth while, apart from the information directly developed by it with reference to loans granted and rejected by the Government, and (presumably) commissions paid to, and earnings received by, American houses of issue which have been concerned in putting these bonds into the hands of the public.

The legislative season thus bids fair to be a time of considerable disturbance and uncertainty in banking and finance, with frequent changes and recriminations relating to almost every phase of commercial, central, and investment banking, although probably with very little in the way of concrete result to be shown for it.

## DROUGHTS AND FAMINES.

The subject of this chapter, to which the attention of the people of England was first seriously drawn during the so-called Madras Famine of 1878-79, is one which is not properly understood by those who have only a cursory acquaintance with India, or only an intimate knowledge of some parts of it. The fact which it is most necessary to grasp is that occasional famine is only the pronounced expression of continuous scarcity; or in other words, that complete failures of crops in certain parts of India which are so severe as to attract public notice are but as the deep and long-cast shadows of depressions in the agricultural outturn which occur almost every year; that the problem, in fact, of saving a portion of the population from misery and semi-starvation is, over vast areas of India, an annually recurring one. The uncertain character of the rain is so excessive that the agricultural outturn, so far as it depends on the rainfall of the year, oscillates violently. English farmers did not, perhaps, know at one time what a violent oscillation of produce meant, and always expected to get twenty-eight to thirty-two bushels of corn an acre, whatever the season might be.

They have had more experience lately, but they would be taken aback, perhaps, if they were asked to cultivate farms in which it was a mere chance whether the outturn would be nothing, or twenty bushels an acre. How to overcome this oscillation, or to mitigate its effects, is the great problem which has to be solved, and it is being vigorously attacked, and to some extent solved, in India.

In describing the area of uncertain rainfall, we may exclude at once two exceedingly well-marked areas—viz., the area of constant rainfall, and the area of constant drought. It may at first sight appear singular that the area of constant drought should be as secure against famine as the area of constant rainfall. But a little consideration will show that without the aid of a perfect supply of irrigation or moisture it would be impossible to cultivate that area which never, under any circumstances, gets sufficient rain for the sustenance of plant life. Hence, so far as cultivated crops are concerned, Sind, Western Rajputana, and the Western Punjab never suffer from failure of cultivated crops, seeing that no single acre is cultivated without a supply of water from a masonry well, a canal, or river-bed moisture. What they do suffer from sometimes is failure of grass for cattle; but as for the moment we are

only dealing with field crops, the argument need not be interrupted by this circumstance. Turning now to tracts rendered secure by a constant moisture supply, a glance at the rainfall maps in this atlas (Chapter III. above) will quickly show that these are, roughly speaking, Eastern Bengal, Assam, the Central Provinces, and finally the long narrow strip on the Arabian Sea side of the Western Ghâts. Having thus eliminated the secure tracts, it will be easy to pick out the tracts of uncertain rainfall, or, as they may be called, the insecure tracts, which in nine years out of ten get enough rain to tempt a large population to grow crops without irrigation, and in the tenth year or thereabouts are afflicted with a complete drought. Between the extreme misery and starvation under complete drought, in the areas of maximum insecurity and the happy condition of absolute certainty of produce in the tracts of constant moisture or constant irrigation, there occur all degrees of scarcity and all grades of suffering. The map of average annual rainfall is based on the statistics of more than 30 years. The area of uncertain rainfall is very fairly marked by following with the eye or the finger the shaded area of "10 to 30 inches of rain," first from Lahore to Allahabad, then across to Ajmir round by Udaipur to Baroda,

and finally through the Bombay Deccan to Mysore.

The districts which lie along the edge of the dark blue in the map, and those which are situated under the lee of the Western Ghâts, and thereby excluded from the influence of any monsoon of unusual weakness, are in the most perilous position.

The next point to be grasped is that when the south-west monsoon is deficient in force and brings a less amount of vapour over the country than usual, the areas just described are the first to suffer. Sometimes it is one tract, sometimes another, but it seldom happens that in any one year the monsoon winds blow with sufficient force over the whole continent to supply every part of it with the average rainfall. When there is a universal shrinkage, as it may be called, of the whole monsoon, the failure of agriculture is most marked throughout the indicated belt of which the average monsoon rainfall is from 10 to 30 inches.

Owing partly to historical causes, and partly to the fearful struggle that has to be carried on with nature in many parts of India, the Indian cultivators have, as a rule, developed into the most patient, hardworking, and, in many cases, skilful agriculturists that can be found on the face of the earth. Inured to privation, accustomed to main-



taining life on short meals, and with scanty clothing, they give their labour for the smallest return it is possible to conceive. The consequence is that, broadly speaking, the agriculture of the country is carried on by a vast human machine—a machine of flesh and blood—which is cheaper in its working than it is possible for any machine of steam and iron to be. In India, we are in a region where the wage-level is so low that the multiplied power of human muscles, or the multiplied power of very weak cattle, supersedes all but machinery of the very lowest order. Wages are rising, and will continue, with civilising influences, to rise still more ; but until they do, the question of increasing the products of the country by the application of machinery must be considered a secondary one. The first and primary question is, how far it may be possible for the Government to increase the effective working power of the two flesh and blood machines—the men and their cattle—and thus fulfil a duty which a feeling of humanity, as well as a desire to develop agricultural wealth, impose upon it. The system of agriculture is eminently one of *petite culture*. It will be exaggerating very little to say that the country is split up into so many millions of five-acre farms. The holders of these farms are small tenants paying rent, over a

large part of India, direct to the State, and over a still larger part, to a landlord, or a landlord intermediate between them and the State. As a rule, the cultivator will do anything that is necessary within the boundaries of his own five acres ; it is a delicate matter to meddle with him there. But outside his five acres he can do nothing ; and as (with due regard to certain bright exceptions) the intermediate proprietor avoids doing anything, it devolves upon the Government to take whatever measures may be possible and expedient (1) to prevent the deterioration of the working power of the agricultural machine, and (2) to improve its working power. In 1879 England sent a message to India that the people must not be allowed to die of starvation. But the Commissioners, who bore that message, found that much more was necessary than to provide the starving people with food when famine was on them. It was necessary, they found, to secure to them a normal condition of strength and health ; and the consequence was that the exhaustive report, written when the labours of the Famine Commissioners were concluded, by their able Secretary (Mr., now Sir Charles, Elliott), suggested administrative reforms of all kinds, which, at first sight, had little to do with the question of famine, but which, on

examination, were found to have very much to do with it indeed. For the whole country being built up, as it were, of those five-acre bricks, it is found that all administrative problems, however intricate, can be resolved into factors in which the five-acre unit, and the prosperity of the five-acre holder, is the most important one of all.

The net result of the Famine Commissioner's mission was a further message to India from Her Majesty's Secretary of State, inviting closer inquiry into vital and economic facts, and the adoption of measures tending to increase the produce of the country as well as to cope with famine. The words in which Lord Ripon gave this message to the country show that he considered that to strengthen and improve the condition of the cultivators was the leading measure necessary for the increase of agricultural wealth :—

“ It is necessary to point out that the agricultural inquiry should not be confined to the mere collection or collation of statistics in the ordinary acceptation of the term. An examination of the portion of the Famine Commissioners' Report which deals with agricultural inquiry will show that, in recommending with reiterated force an intelligent system of investigation, their final object is to urge through its means, and as a practical

tical outcome of its results, the policy of maintaining agricultural operations at the highest attainable standard of efficiency. The Government of India fully accepts this definition of a most important aim of agricultural inquiry. The maintenance of agricultural operations implies the sustenance of agricultural labour, and the complete provision of agricultural requirements; and in India this means that cultivators, their families, and cattle must be fed, properly fed, and their need for labour, irrigating machinery, and agricultural implements adequately met. Now, insufficiency of food, as well as the deterioration or lack of mechanical appliances, must diminish the effectiveness of labour, and thereby reduce the produce of the country. If, therefore, through rack-renting or any unsuitable system of collecting rent, if from inability to obtain capital on reasonable terms, or if from accidents of season and other causes, the amount of produce becomes less than sufficient to provide the sustenance and appliances required by labour and land, it becomes the imperative duty of Government to ascertain whether any legitimate means can be provided to check the degradation of agriculture which must otherwise ensue. On the other hand, if by any means the efficiency of agricultural operations can be increased,

a larger amount of produce will be available both for the support of labour and the provision of mechanical requirements, and also for the rent fund from which the land revenue of the country is derived."

It is in the proper application of these principles that the future increase in the production of the country will be effected, and it is in those terrible battle-fields which have been indicated that their application is chiefly needed, in order to enable the cultivator to make a successful stand against desiccation and uncertainty of outturn. The directions in which the State, or landlord-in-chief, is taking measures for the maintenance of the full working power, as well as for the increased efficiency of the great muscular machine, may now be briefly indicated. They are these: the promotion of railways; of canal irrigation, and of well irrigation; the reclamation of waste lands, with the establishment of fuel and fodder reserves; the introduction of agricultural improvements; emigration and, finally, the improvement, where necessary, of the revenue and rent systems.

On the whole, the expenditure of capital on railways does, by providing the cultivators of precarious tracts with cheaper food when their harvests are insufficient, afford a quicker benefit

to a greater number than irrigation or any other measure Government can undertake, and rightly heads the list.

The next means of aiding the cultivator in his fight against the desiccation caused by the caprices of the monsoon of the year is irrigation by canals and wells,—*i.e.*, by the utilisation of water stored up by monsoons of *previous seasons* in the mountain ranges, and in underground seas. The extent of the protection afforded by wells and canals has increased largely during the last fourteen years, but, as will be seen by a reference to the chapter in this atlas on irrigation (Chapter IV. above), there still remains a great deal to be done.

The next means of increasing the produce is by the reclamation of waste land, and the establishment of fuel and fodder reserves. The two are put together, because it is believed that in the area of precarious rainfall it is wiser to utilise many of the waste tracts by converting them into grazing lands than to grow crops on them. The Famine Commissioners estimated that there were more than 100,000,000 of acres of cultivable waste in the British provinces, of which, perhaps, one-half are in the precarious area. But there are in addition several millions of acres now classed as unculturable, much of which it may also be possible to

convert into grazing land to avert the terrible losses of cattle experienced in years of drought. A word or two now about the cattle which form so important a part of the machine of "flesh and blood," to which reference has been made. Unfortunately, neither railways nor (as a rule) irrigation bring food for cattle. Both railways and water are wanted to sustain the human part of the machine. The main remedy is to establish plantations of fodder trees, and to secure the grazing land from destruction. This measure has been advocated as a means not only of sustaining the cattle power, but by increasing manure, and by supplying fuel to take the place of manure, of adding to the richness of the area already cultivated.

The introduction in India of the more direct methods of agricultural improvement, such as those are understood in Europe or America or Australia, is a subject which has long engaged the attention of the Government, but the vast difference between the conditions of India and those of other countries and the extreme diversities of conditions within India itself have hitherto prevented the commencement of any great measure. The subject was, however, carefully examined in 1891 on behalf of the Government by a European expert, Dr. Augustus Voelcker, and it is hoped

that his report will show the way to the introduction of some important improvements.

Another means of strengthening the cultivation in India is by assisting the population of crowded tracts to emigrate either to less crowded tracts within India or to countries outside where coolie labour is required, and this subject will be dealt with in the chapter on Emigration.

Finally, there is the possibility of relieving them by judicious improvements in the revenue and rent systems. These are described in a subsequent chapter, and it is only necessary to explain in this place that the Government of India, as well as the ruling authorities of those provinces which are most subject to oscillation of outturn, have introduced measures for the prompter relaxation of the Government demand whenever failure of harvest, partial or complete, may render this course necessary for the relief of the agricultural population. A closer return has thus in some degree been made to the old native practice of taking a share of the crop of the year, a practice which, though requiring a very costly machinery and productive of much corruption and harassment to the rāyat, is in theory based upon a sound principle.



